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it's clear why people trust Anglian Water

annual report and accounts 1998

Anglian Water

group profile

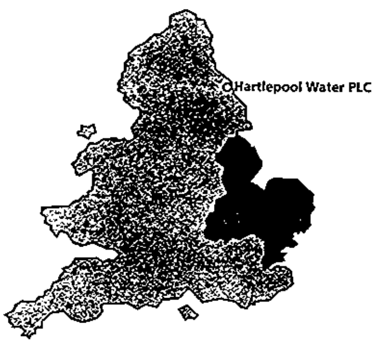
Anglian Water Services is geographically the largest of the 10 regional water and sewerage services companies in England and Wales. We cover a region measuring 27,500km^2, from the Humber in the North to the Thames in the South and from Daventry in Northamptonshire to the East Coast. Our business also includes Hartlepool Water PLC in the North East.

water services

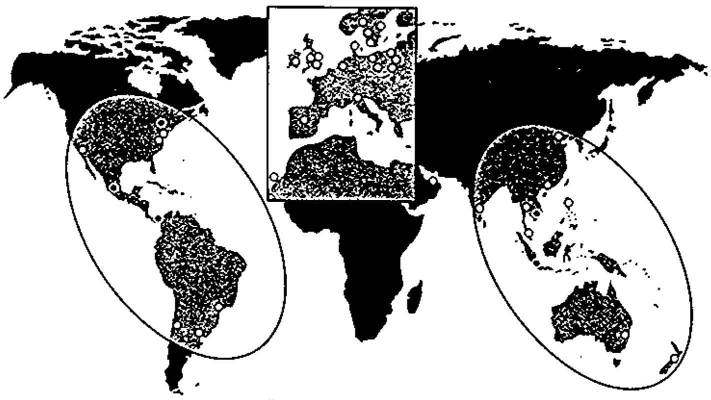
- **population:** 4.0 million
- **properties supplied:** 1.77 million
- **water treatment works:** 162

sewerage services

- **population:** 5.4 million
- **properties supplied:** 2.4 million
- **sewage treatment works:** 1,067



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



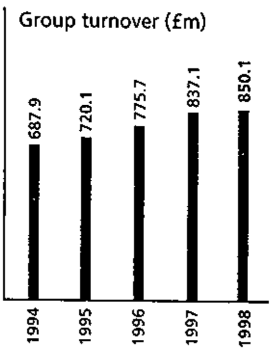
Anglian Water International operations
Future target locations
Future target areas

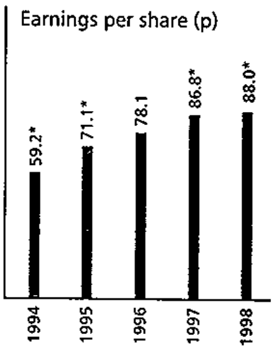
Anglian Water International provides high quality water and wastewater services to the world market, from the Americas to Australasia. These services include long-term concessions, operation and management, process design and contracting, innovative technology and design and build contracts.

subsidiaries and joint ventures

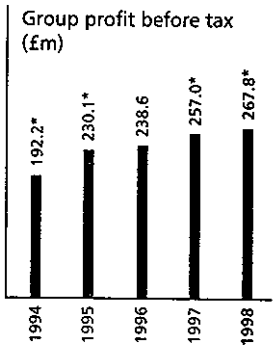
- **Purac**–process design and contracting for municipal and industrial water and wastewater treatment
- **Fluid Systems**–manufactures membranes for the reverse osmosis process
- **AmericanAnglian**–joint venture providing water and wastewater services in North America

the company continues to set industry standards in demand management, customer service and environmental quality measures





*before exceptional items



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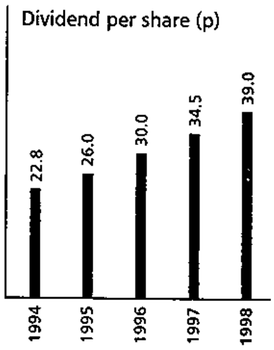


contents

board of directors

Robin Gourlay AE 5

BSc (58) Chairman, Anglian Water Plc (1994 to date); Deputy Chairman, Anglian Water Plc (Feb 1994-Sept 1994); non-executive director, Anglian Water Plc, (Sept 1993-Sept 1994); Chairman, Rugby Group Plc (1996 to date); non-executive director, Astec Plc (1995 to date); non-executive 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).

Chris Mellor AF 4

IPFA (49) Group Managing Director, Anglian Water Plc (1998 to date); Group Finance Director, Anglian Water Plc (1990-1998); Head of Finance and Planning, Anglian Water Plc and Anglian Water Authority (1988-1990); non-executive director, Addenbrooke's NHS Trust (1993 to date); director, East of England Investment Agency Ltd (1998 to date).

John Green AD 8

BSc CEng (54) Group Technical Director, Anglian Water Plc (1993 to date); Managing Director, Anglian Water Services Ltd (1996-1998); Managing Director, Anglian Water International Ltd (1995-1996); Managing Director, Anglian Water Engineering and Business Systems Ltd (1992-1994); director, Anglian Water Services Ltd (1991-1996); director, UK Water Industry Research Ltd (1995-1996); Chairman, Water Services Association of England and Wales (1997).

Tony Eckford A 7

(49) Managing Director, Anglian Water International (1996 to date); Managing Director, International Thames Water Plc (1994-1996); Deputy Chairman & Chief Executive Officer (1993-1994), Group Managing Director (1991-1993), AMEC Process & Energy Group Ltd; Managing Director, AMEC Offshore Ltd (1986-1993).

Roy Pointer AD 6

CEng (52) Managing Director, Anglian Water Services Ltd (1998 to date); Director of Production, Anglian Water Services Ltd (1994-1998); Director of Engineering, Anglian Water Services Ltd (1992-1994); Divisional Manager (North), Anglian Water Authority/Anglian Water Services Ltd (1988-1992).

The Earl of Cranbrook BCDI 3

DSc DL (64) Non-executive director, Anglian Water Plc (1989 to date); Chairman, English Nature (Nature Conservancy Council for England) (1991-1998); Chairman, ENTRUST, Regulator of Environmental Bodies under Landfill Tax Regulations (1996 to date); member, Broads Authority and Harwich Haven Authority (1988-1997); President, Suffolk Wildlife Trust (1992 to date).

board of directors

Richard Jewson BCEG 10

MA (53) Non-executive Deputy Chairman, Anglian Water Plc, (1994 to date); non-executive director, Anglian Water Plc (1991-1994); director and Chairman, Meyer International Plc (1983-1993); Chairman, (1996 to date), non-executive director, Eastern Counties Newspaper Group (1982-1996); council member, University of East Anglia (1980 to date); Chairman, Ideal Hardware Plc (1994 to date); non-executive director, Queens Moat House Plc (1994 to date); non-executive director, (1994-1995), Chairman (1995 to date), Savills; non-executive director, Grafton Group Plc (1995 to date); Chairman, Anglian Housing Association Group Ltd (1996 to date).

June de Moller BCEH 2

(50) Non-executive director, Anglian Water Plc (1992 to date); Group Managing Director, (1993 to date), director (1983-1993), Carlton Communications Plc; member, Advisory Board for the Judge Institute of Management Studies (1996 to date); member, Stock Exchange Advisory Committee (1997 to date).

Sally O'Sullivan CD 9

BA (48) Non-executive director, Anglian Water Plc (1997 to date); Editor-in-Chief Home Interest Group, IPC Magazines (1996 to date); member, Broadcasting Standards Commission (1994 to date); member of Nuffield Council of Bioethics (1995 to date); non-executive director, London Transport (1995 to date), member, Advisory Council on the Misuse of Drugs (1995 to date).

James Cronin BC 1

SCIMA (59) Non-executive director Anglian Water Plc (1996 to date); Managing Director, GEC Alsthom NV (1990 to date); director, GEC Plc (1996 to date).

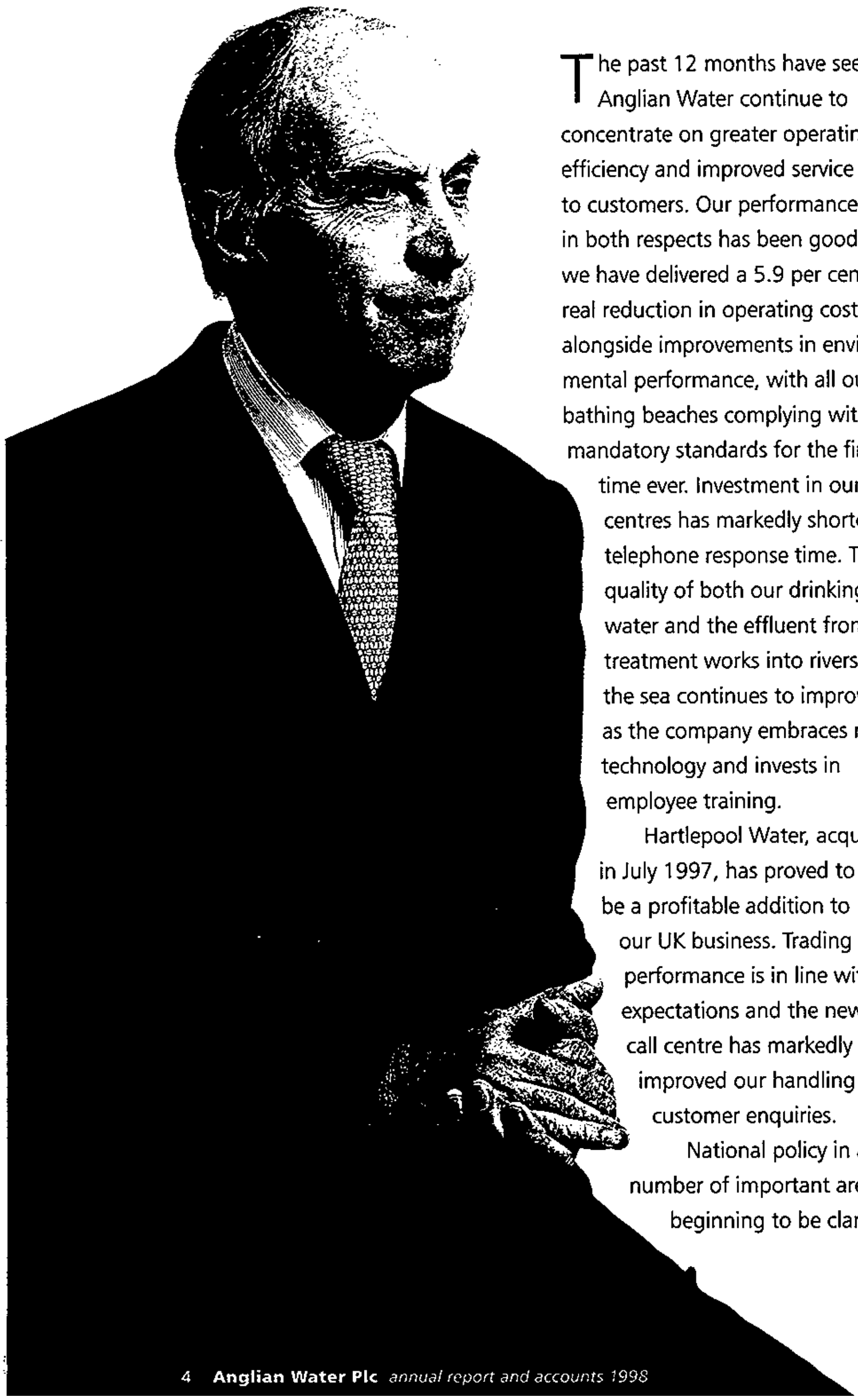
David Challen BC 11

(55) Non-executive director, Anglian Water Plc (1993 to date); director (1979-1997), Chairman (1997), J Henry Schroder & Co Ltd; member, Takeover Panel (1993-1994); member, Governing Body of Morley College (1993 to date); member, Advisory Committee on Business and the Environment (1991-1993); member, Financial Reporting Council (1995 to date).

Key

- A member of Executive Committee
- B member of Audit Committee
- C member of Remuneration Committee
- D member of Environment Committee
- E member of Nominations Committee
- F Chairman of Executive Committee
- G Chairman of Audit Committee
- H Chairman of Remuneration Committee
- I Chairman of Environment Committee

improving service and quality



The past 12 months have seen Anglian Water continue to concentrate on greater operating efficiency and improved service to customers. Our performance in both respects has been good: we have delivered a 5.9 per cent real reduction in operating costs, alongside improvements in environmental performance, with all our bathing beaches complying with mandatory standards for the first time ever. Investment in our call centres has markedly shortened telephone response time. The quality of both our drinking water and the effluent from our treatment works into rivers and the sea continues to improve as the company embraces new technology and invests in employee training.

Hartlepool Water, acquired in July 1997, has proved to be a profitable addition to our UK business. Trading performance is in line with expectations and the new call centre has markedly improved our handling of customer enquiries.

National policy in a number of important areas is beginning to be clarified. We are pleased that the Government in its Green Paper, 'Water Charging in England and Wales–A New Approach', confirmed its support for a policy of progressive metering of existing domestic customers on a voluntary basis. This is exactly our approach. Indeed, we are delighted that many of the charging initiatives implemented over recent years by Anglian Water have been embraced in the Government's new policy. One exception is the Government's intention to remove our power to disconnect non-paying domestic customers. This is based on the misconception that 'vulnerable' customers will be protected. However, our practice for many years has been to support and help any customer who genuinely cannot pay. The threat of disconnection is a powerful disincentive for those who can afford to pay, but who would otherwise play the system. Hence, in our view, the Government's approach, while well-meaning, will lead to a sizeable increase in our levels of outstanding debt, the cost of which will inevitably fall in the long run on our customers who do pay their bills.

chairman's statement

In its Green Paper on Utility Regulation, published in March, the Government confirmed its support for a regulatory regime based on medium-term financial incentives for companies to strive for efficiency and innovation. This is good news for customers and shareholders after the expression of so much criticism and doubt over the past two years.

The policy debate has now shifted to the critical issues of customer priorities and the environment. The Anglian Water region is one of the most environmentally-sensitive in the UK. This poses particular challenges with regard to water abstraction near to wetlands, the sensitivity of our rivers to pollutants and the disposal of sewage sludge. Surveys tell us that many of our customers want, and are prepared to contribute to, environmental improvements which go beyond the statutory minimum. Consequently, we shall be pressing OFWAT, in our request for capital expenditure during the next regulatory period, for sufficient funds to meet these expectations, so enabling us to maintain our record of improving environmental performance.

The efficiency and service quality of our UK business provides Anglian Water International with a first-class shop window to win new business overseas. Opportunities for growth are many, but competition is intense, and a number of high-profile contracts have been awarded to competing companies at levels which, in our view, do not adequately price the business risk.

Notwithstanding this environment, our international business has shown steady improvement. In September, AmericanAnglian, our joint venture with American Water Works, won a US$50 million contract to supply water to the city of Buffalo, New York State. The joint venture now serves one million people in the USA. In March, we announced a £40 million contract, awarded by the city of Oslo, to a consortium including Purac AB to construct a state-of-the-art sewage treatment plant in this most sensitive of locations, with an option to call on Anglian Water to manage the plant for 20 years.

We shall continue to compete overseas, focusing our efforts in those areas where we are already successfully operating and, in particular, North and South America, where a number of significant opportunities are being developed.

All UK non-regulated trading activities reached break-even or better at operating profit level. Purac, our subsidiary process engineering company, secured two substantial UK contracts, a £19 million design and construction contract for a regional sewage sludge centre for Southern Water and a £17 million contract with South West Water to provide two wastewater schemes in Cornwall.

We are pleased with the financial results for the group. Profit before tax and exceptional items was £267.8 million, on a turnover of £850.1 million, this represents a 4.2 per cent increase over last year. Your board is therefore recommending a final dividend of 27.5p, which will be paid on 31 July 1998, bringing the total dividend for the financial year 1997/98 to 39.0p.

Alan Smith retired on 31 December 1997 having been Managing Director since April 1990. We owe him our thanks for his exceptional contribution throughout this period of unprecedented change. Under his leadership the company's efficiency, environmental effectiveness and service standards have all met our ambitious targets. Chris Mellor, previously Finance Director, was appointed Group Managing Director on 1 January 1998. On 19 January 1998 Roy Pointer was appointed Managing Director, Anglian Water Services Ltd, replacing John Green who retires on 30 June 1998, and whom we also thank for his contribution, not only to the company but also to the industry, particularly through his leadership in the creation of a trade association serving the UK water industry as a whole.

In the Managing Director's statement which follows, Chris Mellor expresses clearly the board's ambitions for Anglian Water and the values we want our people to live by. They summarise the priorities of our new management team. They are worth reading.

Robin Gourlay

Robin Gourlay **Chairman**

our vision & values

Anglian Water continued to make good progress in 1997/98 on our journey to becoming one of the foremost water and wastewater companies in the world. Our reputation in the UK and overseas for quality and service was further enhanced during the year, and under my leadership we shall remain relentless in our pursuit of excellent performance.

In the past six months we have involved everyone who works for Anglian Water in developing and defining our Vision and Values. Our purpose is to sustain and enhance the lives of our customers through the profitable management of water and wastewater. This recognises the special nature of what we do, taking care of the public health of communities through the provision of safe water supplies and sanitation and protecting the aquatic environment.

Our vision is to become one of the foremost water and wastewater companies in the world by 2007, delivering superior shareholder returns by becoming our customers' first choice and by valuing and recognising our employees and enabling them to reach their full potential.

Becoming the customers' first choice requires us to operate in a safe and sustainable way, to understand and anticipate our customers' needs and expectations and to build an Anglian Water brand that stands for trust, quality and efficiency wherever we are in the world.

Our UK business is our shop window and we will continue to invest in improving our quality of service and efficiency of operation. The 1997/98 highlights include a 100 per cent pass rate for our 38 bathing waters, the continued success of our metering programme, our low leakage rate and further improvements in efficiency. After a faltering start to the year, when our customer call centre was inundated with requests for meters, we recruited more people and opened a second call centre in Hartlepool. In the final quarter of the year our performance matched the best in the industry.

However, the lowlight was that we were prosecuted four times by the Environment Agency for polluting watercourses, incurring a total of £27,500 in fines. While these were not in themselves major events, we shall work very hard in future to prevent further occurrences.

As competition for water and wastewater services develops in the UK we will embrace it as an opportunity to grow our business. We also see a major opportunity to grow through our international operations and we now have a strong team in place to make progress in 1998/99.

The performance of our international business in 1997/98 was in line with our expectations. This was a year when we concentrated on moving our existing businesses back into profit, getting more focus into our strategy through the sale of companies which did not add long-term value and developing a portfolio of business opportunities which we are well placed to win.

We have also identified opportunities for growth in the UK and we were pleased to win the first two inset appointments in the water industry, where we now supply customers in two of our competitors' areas.

These are, however, long-term strategies designed to deliver earnings for shareholders post 2000 when returns from our regulated business will inevitably be affected by OFWAT's review of our prices. Although this does not take effect

sustaining and enhancing the lives of our customers to ensure that we are their first choice

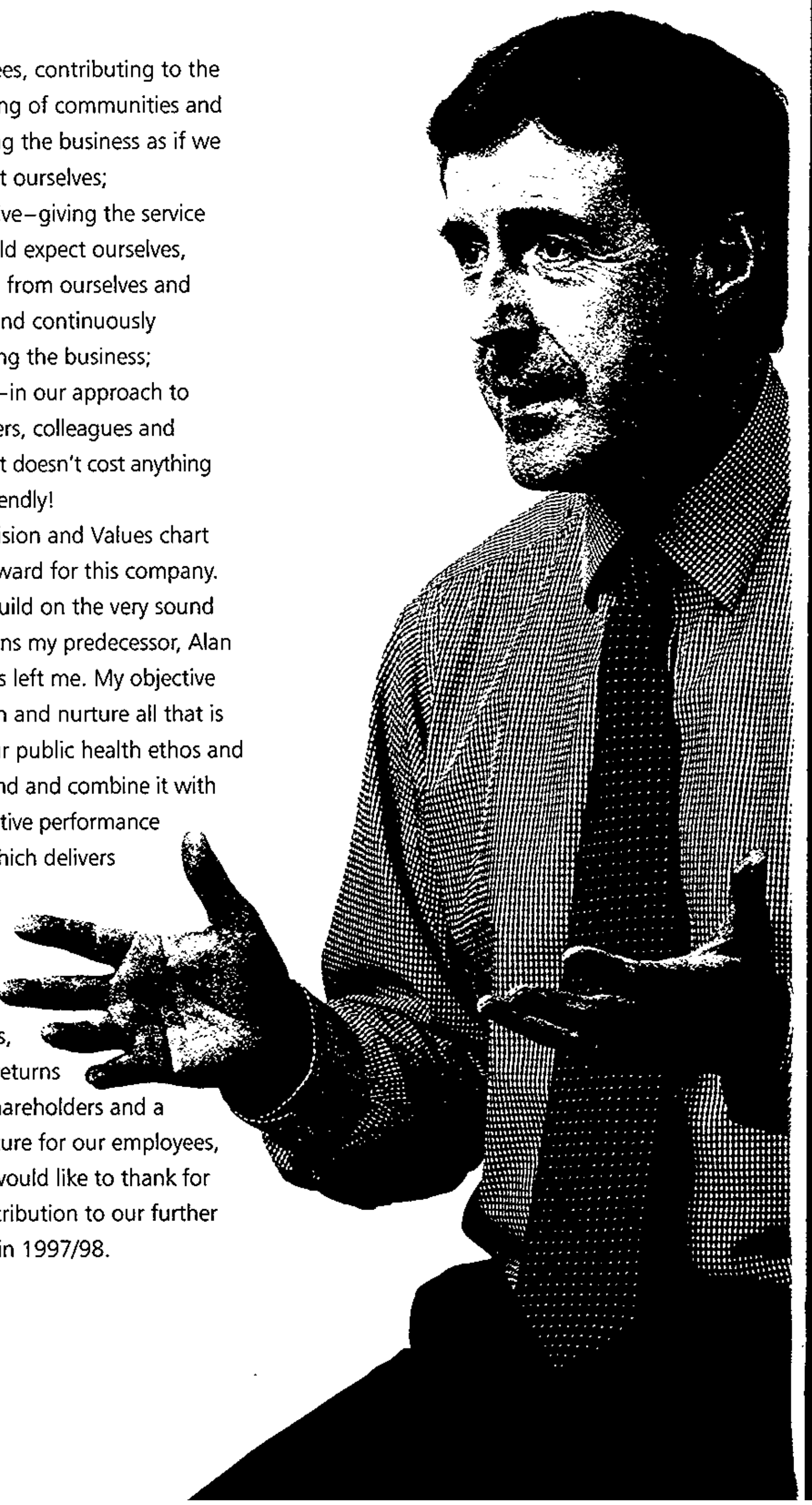
until 1 April 2000 preparations are well under way. In the coming year we will work towards obtaining the best possible outcome from the review–one which fairly reflects the legitimate requirements of our customers and shareholders. We then aim to be as well prepared as we can be to take advantage of the efficiency incentives in the regulatory regime for the benefit of our shareholders and ultimately our customers.

Absolutely key to achieving all this are the people who work for Anglian Water and we will continue investing in training and developing all our people. We are also continuing to develop a performance culture in Anglian Water, a culture in which people feel valued, one in which people have to pull their weight, but also where they are rewarded and recognised for good performance. A phrase you hear a lot in the company is "living our values".

Our values are the way we want all our people to behave:

- effective–doing the right thing and getting it right first time;
- competitive–open to change, innovative and efficient;
- responsible–operating safely, being fair to our customers and employees, contributing to the well-being of communities and operating the business as if we owned it ourselves;
- responsive–giving the service we would expect ourselves, learning from ourselves and others and continuously improving the business;
- friendly–in our approach to customers, colleagues and others; it doesn't cost anything to be friendly!

Our Vision and Values chart a way forward for this company. I aim to build on the very sound foundations my predecessor, Alan Smith, has left me. My objective is to retain and nurture all that is best in our public health ethos and background and combine it with a competitive performance culture which delivers excellent value and service for our customers, superior returns for our shareholders and a bright future for our employees, whom I would like to thank for their contribution to our further progress in 1997/98.



responding to customers' needs

Anglian Water's continuing drive for customer service improvements–putting our customers at the heart of our company values–achieved encouraging results during the past year. In independently-conducted research, around 85 per cent of customers said they were satisfied with Anglian Water's overall level of service.

This rating compared favourably with other utilities in the region and is especially welcome in a year of unprecedented demand for water meters and very low summer rainfall.

Demand for meters

The growing popularity of water meters was emphasised this year as demand soared to an all-time high. In just two months, April and May 1997, we received 66,000 requests for information about water meters–more than in the previous 12 months. The surge in demand followed the inclusion of information about free water meters with our annual bills in March 1997.

With a high percentage of metered customers finding themselves better off, the good news is spreading quickly. More than half a million homes–a third of our UK customer base–now pay for their water through a meter.

Anglian Water leads the industry in this area. Metering conserves water and is essential if we are to manage demand efficiently.

Meeting the growing demand for water meters has been challenging, particularly in the first half of the year. The huge increase in telephone calls alone added to the workload of our Customer Services team, who were already stretched to the limit to fit the meters within the six weeks promised in our Customer Charter.

More than a third of our UK customers now pay metered charges

Local MP Peter Mandelson opened Hartlepool Call Centre on 3 April 1998

Customer focus

To deal with the increased demand on our services, and in recognition of customers' preference to deal with Anglian Water over the telephone, a new call centre was set up during the year. Based in Hartlepool, at Hartlepool Water, the new centre reinforces our Customer Services team at Lincoln.

The call centre had an immediate effect on our ability to achieve the Director General's target of 90 per cent of calls to be answered within 30 seconds. During March, 98 per cent of calls were answered within 30 seconds and 95 per cent were answered within 15 seconds. However, this improvement came too late to impact significantly on our overall performance for the year.

Our record of dealing with operational and billing queries has improved. Complaints were

our customers are resting easy with our 24 hours a day customer service line

answered quicker than before and the Customer Services team made significant progress in responding to general enquiries about water bills.

Increasing customer expectations is an ongoing challenge which requires a well-trained and motivated workforce. Anglian Water has invested in training programmes which match our employees' needs and ensured more employees have achieved NVQs in customer service. In recognition of our efforts the Customer Services training team were placed second in the training award of the Utility Industry Achievement Awards 1997.

Responding to customers

During the year, we continued to demonstrate our commitment to improving customer service with a series of initiatives:

- the independent Anglian Water Trust–an Anglian Water idea now being adopted by many companies–has received £4 million since its inception in 1996. The Trust assists customers who have genuine difficulties paying their bills and helps with debt counselling and support for care organisations;
- the Watertight Promise was extended to offer our unmetered customers a free repair or replacement service for leaks found on their own supply pipes;
- new Business Charters acknowledged the existence of three distinct groups of commercial customers–developers, large industrial and small industrial/ commercial businesses–all of whom have widely differing requirements. The introduction of the Charters reflects our determination to tailor customer service to specific needs in the commercial sector, in the same way as we do for our domestic customers;
- innovative tariffs were introduced to reflect the wide range of customers served. The introduction in April 1997 of the SoLow tariff, which has no standing charge but a higher rate per cubic metre, has benefited customers who use small quantities of water. A further, new measured tariff, known as Plus 4, was introduced in April 1998. This tariff is intended to assist large, low income families who typically use greater than average amounts of water, and who might otherwise be disadvantaged by metering. It will be available only to those families who receive certain income-related Government benefits;
- face-to-face contact with customers was improved by creating a team of customer representatives whose prime role is to champion our customers' interests. The representatives adopt a proactive approach by developing relationships with customer groups and have a trouble-shooting role resolving customers' problems.

delivering continuous quality

Demand management

Despite the worst drought this century, affecting the three years from 1995 to 1997, Anglian Water maintained supplies to customers without any restrictions. It is now widely accepted that we have one of the best records in the industry for managing demand for water.

Managing this demand has always been an imperative for Anglian Water, because the region is the driest in the UK with approximately half the average rainfall of the rest of the country. Our advanced leakage control methods and water metering programme are designed to make the most of the region's scarce water resources.

The leakage rate remains one of the lowest in the industry. We continued to invest heavily both in leakage repair and in new technology to enable better detection and measurement of leakage. One result of this improved measurement is that we now believe leakage to have been underestimated in the past.

The quality of the information now available will help us to drive leakage down even further. We recently set up a project to target leaks at our service reservoirs and water towers, and on the large trunk mains which feed them from our water treatment works.

Domestic water meters are also very effective at reducing waste. However, metering is not just for customers. Almost all Anglian Water's pipework is now monitored by district metering. This type of meter measures the volume of water supplied to district areas, such as villages or large housing estates, and automatically produces daily reports of leakage and levels of demand. If demand rises suddenly, district metering enables us to investigate immediately the possibility of a leak.

Due to the long period of drought, some reservoirs were very low in 1997. Aquifers, the sponge-like layers of porous rocks such as chalk, which hold vast quantities of water many feet below ground, were at the lowest levels ever recorded. However, the wetter winter of 1997/98 has helped to replenish reservoirs, and provide a much-needed relief for the aquifers.

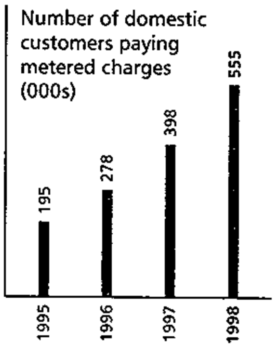
In anticipation of another dry winter, we applied for two drought orders at the beginning of the 1997/98 winter, as a precautionary measure. However, as we received normal levels of rainfall in the 1997/98 winter, the need for the orders receded and the applications were withdrawn. We are currently undertaking extensive environmental studies in case we need to make similar applications in the future.

Drinking water quality

Anglian Water carried out more than a quarter of a million tests on the water we supplied during 1997/98 and, of these, 99.6 per cent complied with the Government's standards. On the few occasions standards were exceeded there was no risk to public health.

To further improve the quality of water supplied to our customers and to reduce the amount of iron in water at the tap, we spent more than £26 million last year to remove and replace 235km of old mains with modern polyethylene pipes. This year £17 million has been spent on the provision of water services for

New technology has improved our demand management capabilities



new development, mainly concentrating on the region's growth areas– Peterborough, Northampton, Milton Keynes, Braintree and Spalding.

In the past year we commissioned two low-energy membrane water-softening plants at Rushall and Bunwell in Norfolk. A third plant at Diss will come on stream in the summer. The use of membrane technology offers a cost-effective means of reducing excessive water hardness, thus improving customer satisfaction.

We have also developed a pilot seawater desalination plant at Felixstowe, Suffolk. The project, which utilises membrane technology, will help us to determine the economic viability of desalination, both for domestic and overseas markets.

Risk management

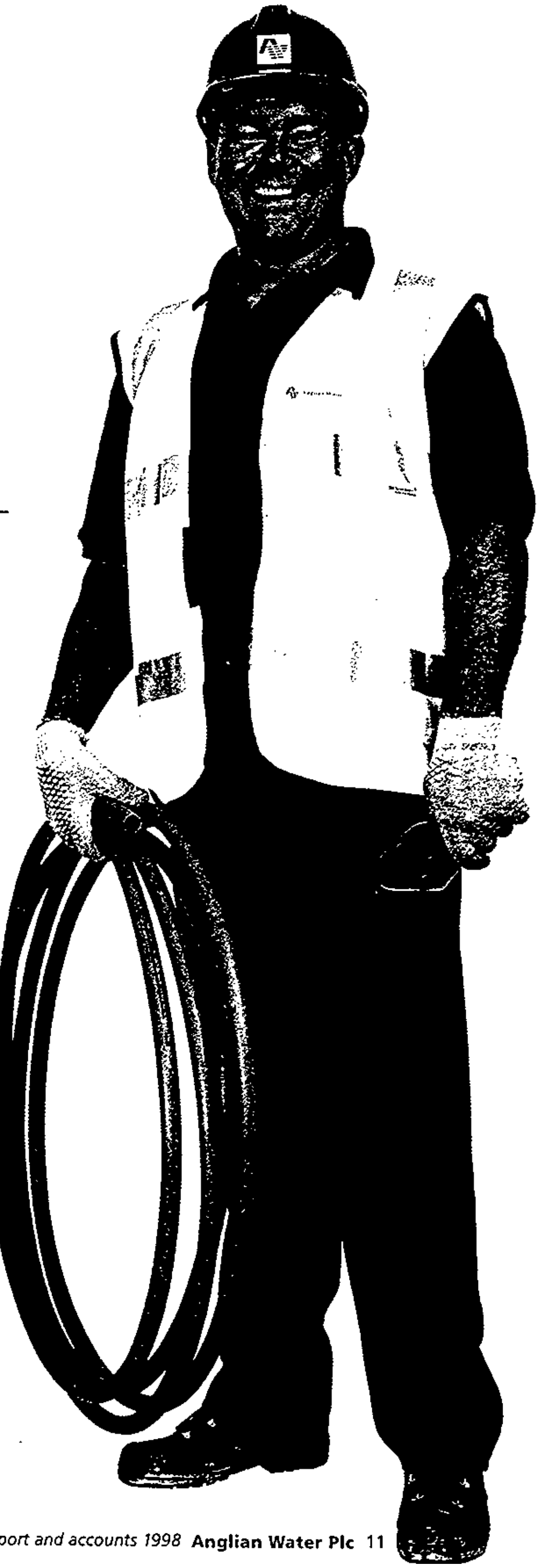
The company has fully recognised the risks associated with the millennium date change and work on our IT systems is well advanced. Our recent investment in new technology has greatly assisted this process.

Importantly, we have embarked on a project to ensure that water and wastewater treatment processes controlled by computers will be year 2000 computer chip compliant. We have allocated £17 million to cover the possible replacement cost of computer equipment.

Training and development

Last year, a significant programme of modernisation and training of our workforce took place. More than 25,000 man-days of multi-skills training and joint working agreements with the unions have resulted in effective team working across our operations. Included in the programme was a reduction in workforce numbers, but the quality of service to customers was not compromised. The programme has led to annual operational cost savings of £5.9 million.

235km of mains replaced



caring today for the future

Bathing waters

All 38 bathing waters in the Anglian Water region now meet European Union standards. This is the target we have consistently worked towards. We are the only water company in the UK to achieve this 100 per cent target. Our excellent performance is the consequence of a five-year, £266 million investment programme, Project Clearwater.

Last year, newly-commissioned treatment plants at Felixstowe and Harwich resulted in substantial improvements to the quality of bathing water. A £28 million scheme has been completed at Clacton where a new sewer tunnel prevents storm discharges on to the beaches. The scheme has also reduced the risk of sewer flooding in the town and is improving bathing water quality.

With Project Clearwater coming to an end, we have begun a series of partnerships with local councils and the Environment Agency. Our aim is to meet even tighter European Union Guideline standards and help contribute towards the achievement of Blue Flag water status for all 38 beaches.

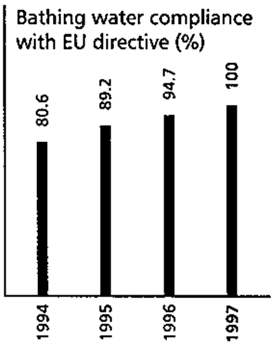
Rivers and estuaries

Since 1990, river water quality in the Anglian Water region has improved by 35 per cent, largely due to our £220 million improvements to sewage treatment works. As a result, 99.2 per cent of our 1,067 sewage treatment plants now meet their discharge standards as at 31 March 1998.

However, despite this improvement, last year we were prosecuted

100% compliance

The £28 million scheme in Clacton nears completion



Checking progress at the new wastewater treatment plant in Grimsby

four times by the Environment Agency for polluting watercourses, incurring a total of £27,500 in fines.

In Grimsby, we are investing £30 million to improve water quality in the Humber Estuary. A major new wastewater treatment plant will provide full treatment for wastewater from houses and businesses in the town. The project is due for completion in summer 1999.

We are investing £41 million on improving treatment for the coastal towns of Great Yarmouth, Lowestoft and Clacton. Work is already underway at Caistor and due for completion in 1999. The Lowestoft and Clacton schemes will follow on for completion by the year 2000.

Inland, we are investing £24 million to raise treatment standards at our works which serve the city of Peterborough and the towns of Colchester and Corby which are due for completion in 1999.

The flatness of East Anglia, low rainfall and widespread intensive farming, results in rivers that are slow-flowing and rich in nutrients. Sewage has to be treated to a very high standard to ensure that it has no adverse impact on the waterways.

Our region is attractive to new customers and developers and, as a result, we have to provide increased treatment capacity at our works which serve the growing towns and villages. We have a continuous programme of improvement at our treatment works to make sure we can cater for this growth, so that there is no deterioration in our discharges back to rivers and watercourses.

Sludge (biosolids) recycling

Our sewage sludge recycling operation, which provides a service to local farmers, has been transformed into a high quality operation.

Recycling to farmland is the accepted environmental option. In the UK this has been shaped by an independent audit which was commissioned by Anglian Water's Board Environment Committee. Agricultural recycling provides significant benefits by replacing chemical fertilisers with an organic product which improves moisture retention on light land.

Anglian Water currently recycles 80 per cent of its sewage sludge this way. Alternatives include land reclamation, landfill or incineration, but these are less environmentally-friendly. We remain confident that our sewage sludge operation is safe, but we recognise that public perception and concerns are crucial in determining the long-term viability of the agricultural option.

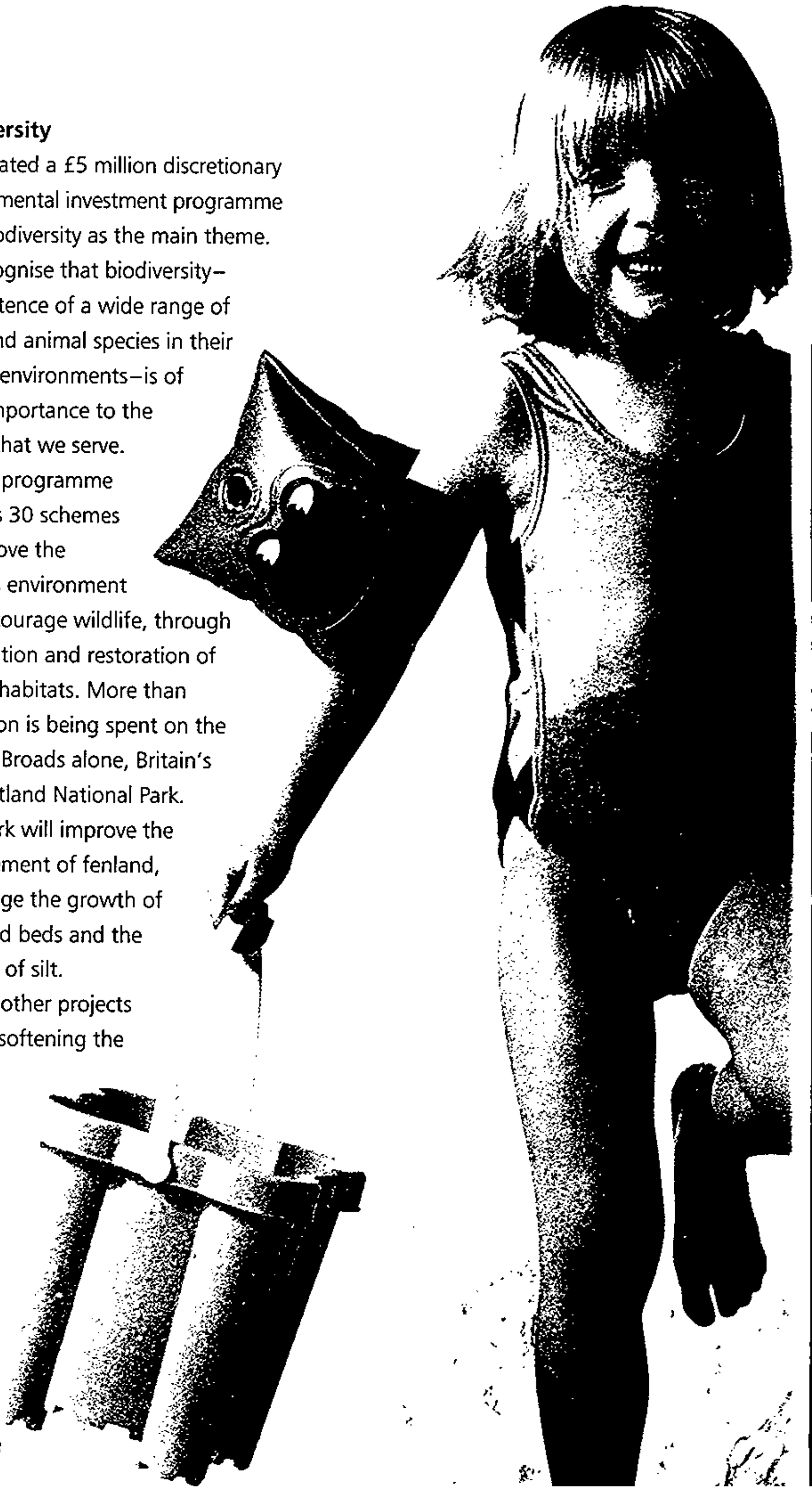
We plan, therefore, to treat sludge to standards over and above the requirements of existing regulations, and review our dependence on agriculture. These plans are part of our Cost of Quality submission for the next periodic review.

Innovation

Anglian Water's programme to produce compact, cost-effective treatment processes continues. For example, the commissioning of new forms of sewage treatment using Kaldnes media, an innovative, plastic product developed by Anglian Water, has proved particularly successful in improving wastewater treatment at Colchester and Bury St Edmunds.

with mandatory bathing standards

enhancing customers' lives



Environment

Anglian Water's aim and responsibility is to work towards the sustainable management of the environment. Our efforts were again recognised in a Most Admired Company survey carried out annually by the magazine, *Management Today*. We were voted third best company overall in the UK for the category Responsibility to the Environment and the Community and, for the second year running, we were the top water company in this category.

Board Environment Committee
Our commitment to environmental progress is overseen by our Board Environment Committee, chaired by Lord Cranbrook. One important initiative undertaken by the committee was a consultation exercise within the company and with external organisations. This has led to the development of an environmental strategy that will take forward our Environmental Policy and will consider areas such as the number of miles travelled on company business and the waste produced by our offices and pipe-laying schemes.

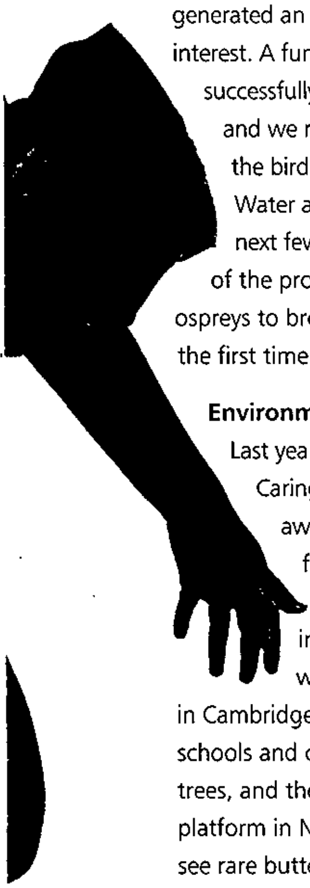
Biodiversity
We initiated a £5 million discretionary environmental investment programme with biodiversity as the main theme. We recognise that biodiversity–the existence of a wide range of plant and animal species in their natural environments–is of great importance to the region that we serve.

The programme includes 30 schemes to improve the region's environment and encourage wildlife, through the creation and restoration of natural habitats. More than £2 million is being spent on the Norfolk Broads alone, Britain's only wetland National Park. This work will improve the management of fenland, encourage the growth of new reed beds and the removal of silt.

Our other projects include softening the

Bearded tit–characteristic bird species of the Norfolk Broads reed beds

In northern Ghana women walk up to eight hours every day to collect water



visual impact of our treatment plants and pumping stations in designated Areas of Outstanding Natural Beauty. Also our investment in a project to establish breeding ospreys at Rutland Water has generated an enormous amount of interest. A further eight chicks were successfully released in 1997, and we remain hopeful that the birds will return to Rutland Water as adults during the next few years. The overall aim of the project is to encourage ospreys to breed in England for the first time in 150 years.

Environment awards

Last year our annual Caring for the Environment awards gave £40,000 for community projects. Winning projects included native woodland creation in Cambridgeshire, where local schools and communities planted trees, and the building of a viewing platform in Northamptonshire to see rare butterflies.

As part of our ongoing commitment to supporting environmental groups within our community, we sponsored the annual Anglia in Bloom awards. These awards are given to communities that successfully use flowers and plants to improve the quality of local environments. We have been recognised for our work in the area with a Queen Mother's Birthday Award. Full details of our environmental performance are included in our Environmental Activity Report.

Community

Lessons for Life

Anglian Water strives to be a good neighbour in the community in which we operate and where most of our employees live.

Thanks to our Lessons for Life scheme, more than 105,000 children have learnt to swim. Many of them have overcome disabilities or fear of the water to achieve their goal. The scheme, in partnership with the Amateur Swimming Association, has operated at 40 pools throughout the region.

Support for the arts

As with all our community activities, the key to our successful arts sponsorship programme lies in the partnerships which we have formed. This year we have been working with the City of London Sinfonia and Music for Youth to provide an opportunity for local audiences to enjoy performances which are rarely available in the region. The concert programme is combined with a series of educational schemes with local schools.

Employee involvement

Anglian Water encourages and supports employees who become involved with local community groups and charities. Our employee charity this year is the National Society for the Prevention of Cruelty to Children. Many of our employees have been involved in fund-raising throughout the year and to date have raised more than £23,000 or this charity.

In addition, the company and our employees raised almost £120,000 for the charity, WaterAid, which provides safe, drinking water in developing countries such as Ghana.

third overall in the UK for Responsibility to the Environment and Community

Source: *Management Today*'s 'Britain's Most Admired Companies'

exporting Anglian Water skills

Anglian Water International draws on the expertise of the Anglian Water Group to provide management, operational and process services to customers around the world. The company designs, builds, manages, operates and maintains drinking water and wastewater systems using advanced and innovative processes.

During the year, our performance improved significantly. Profits from the trading companies increased and we won a number of important contracts. We aim to build on this success in the coming year and use the group's extensive experience in managing large-scale, integrated water and wastewater systems to participate fully in the growing world market.

New Zealand: Moa Point, Wellington

Three years into the four-year construction phase, the first part of our design, build and operate contract was completed on time. The Western Treatment Plant, opened in October 1997, uses an activated sludge process and ultra-violet disinfection to treat wastewater for about 12,000 people.

In addition, work is on schedule to complete the major sewage treatment works being built at Moa Point to serve more than a quarter of a million people.

The contract has a total value of NZ$149 million (£68 million). Once the construction work is finished, we will operate the complete sewage treatment and disposal system for a further 21 years.

AmericanAnglian

Our USA joint venture, American-Anglian, made significant progress in 1997. The highlight of the year was winning a US$50 million contract to manage the water supply system for the city of Buffalo, New York State. The five-year contract includes water abstraction, treatment and distribution, plus billing, income collection and customer services for 325,000 people. The joint venture is now serving one million people in the USA and turnover has doubled to approximately US$40 million.

Moa Point sewage treatment works will serve more than a quarter of a million people

Norway: Oslo

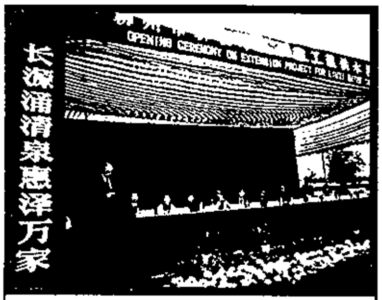
An Anglian Water consortium was awarded a £40 million contract to design, build and operate a new sewage treatment plant for Oslo. The contract is a great opportunity for us to demonstrate our expertise as much of the plant will be constructed inside rock and the highly-treated effluent will discharge into the Oslo Fjord.

Argentina: Buenos Aires

Anglian Water has a share in Aguas Argentinas SA. This company has a 30-year concession to modernise and operate water and sewerage services for seven million people in Buenos Aires. Aguas Argentinas has shown a steady growth in revenues and profits during its first five years of operations. Anglian Water continues to receive dividend income from the concession.

China

The Purac Group, our major process engineering subsidiary, has recently completed their £5.3 million contract at the Liuzhou water treatment works in southern China. The works began supplying drinking water in October 1997 and is one of a large number of projects being handled by Purac in China.



The official opening ceremony for the Liuzhou water treatment works in China

serving one million people in the USA

Other projects currently underway include a £2.5 million contract for Zhangjiagang water treatment works, north of Shanghai, which is close to becoming operational, a £3.3 million contract to supply equipment to the Wuxi Water Company in Jiangsu and a £3 million contract to provide sophisticated water treatment for the City of Hepu in southern China.

UK

Purac has also secured two important contracts in the UK. A £19 million design and construction contract for a regional sewage sludge centre for Southern Water in Millbrook, Southampton, is due for completion by the end of 1998. Purac has also entered a partnership with South West Water to provide sewage treatment expertise for two wastewater schemes in Cornwall. The contract is worth £17 million.

Membrane technology

Following DWI approval of Fluid Systems' reverse osmosis membranes for drinking water treatment, these are now being used worldwide in more energy-efficient water treatment systems. Fluid Systems developed these specialised membranes for desalination and water purification. Purac markets the membranes in the UK.

UK Commercial

UK Commercial had a turnover of £18.2 million and a profit before tax of £1.1 million. Three companies were launched during the year:

Powermarque: a fleet management and contract hire service.

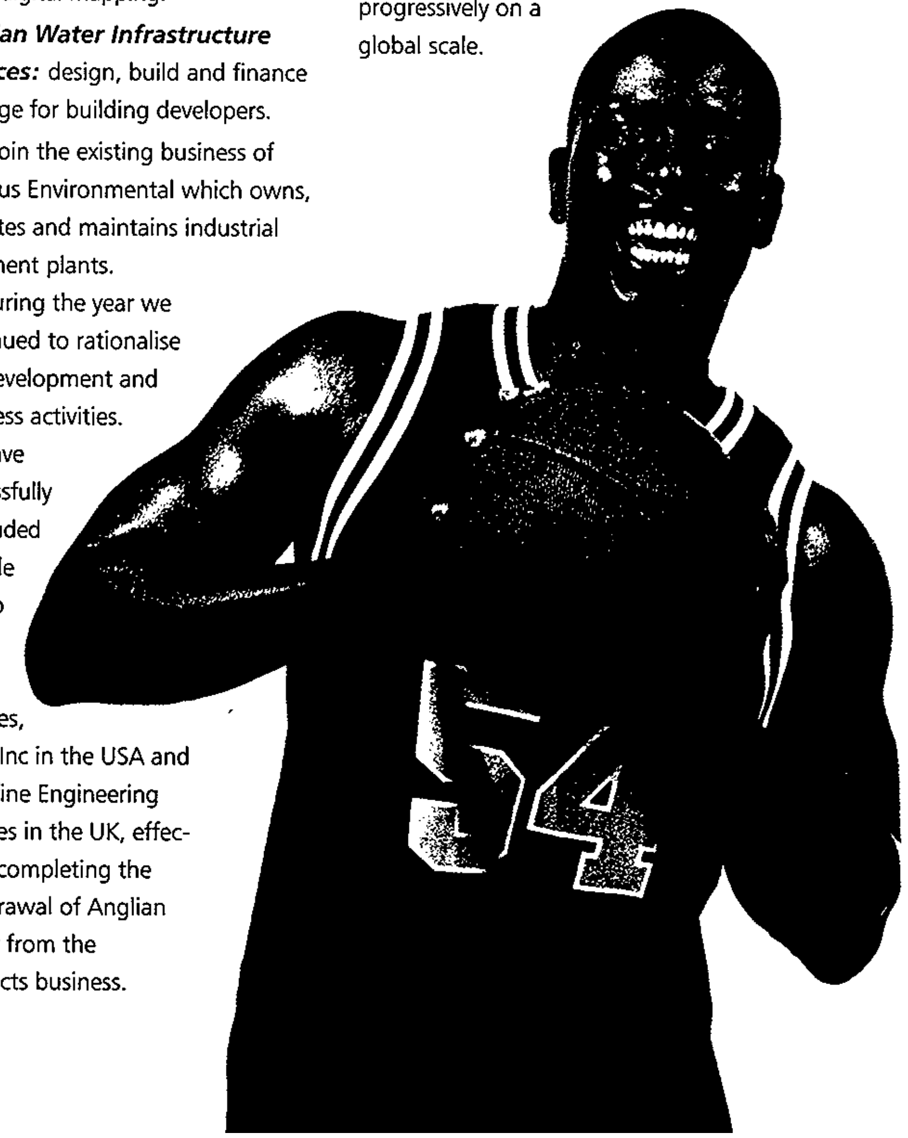
Geodesys: asset management using digital mapping.

Anglian Water Infrastructure Services: design, build and finance package for building developers.

They join the existing business of Alpheus Environmental which owns, operates and maintains industrial treatment plants.

During the year we continued to rationalise our development and business activities. We have successfully concluded the sale of two of our subsidiaries, Purac Inc in the USA and Aquafine Engineering Services in the UK, effectively completing the withdrawal of Anglian Water from the products business.

In parallel, we have progressively strengthened our capability to develop and execute concession and Build, Own, Operate and Transfer contracts by reinforcing our internal management group and forming key partnerships locally and globally. These partnerships provide an effective platform to develop progressively on a global scale.



operating and financial review

Operating results

It has been another good year for the group.

Turnover increased by 1.6 per cent from £837.1 million to £850.1 million. Profit before tax and exceptional items increased by 4.2 per cent from £257.0 million to £267.8 million and earnings per share before exceptional items increased by 1.4 per cent from 86.8p to 88.0p.

The growth in Anglian Water Services' (AWS) turnover represents an increase of 3.6 per cent. This mainly results from price increases which were partly offset by the effect of customers switching to water meters.

The percentage of turnover relating to measured customers increased to 31.2 per cent from 26.7 per cent as we progressively install meters throughout the region in existing properties, and also offer customers the opportunity to switch to a meter.

Total AWS operating costs (before exceptional charges) have increased by 0.5 per cent from £364.4 million to £366.1 million. Depreciation increased from £91.6 million to £97.4 million.

The infrastructure renewals charge within AWS which represents our assessment of the cost of maintaining our network of underground pipes and sewers in perpetuity is £18.5 million (1997 £17.7 million). As planned, actual expenditure of £39.3 million has significantly exceeded the charge in the year as we have increased our investment to reduce leakage rates and to improve the operational performance of our networks.

The operating costs of AWS (before exceptional charges) excluding depreciation and infrastructure renewals charges have reduced by £4.9 million this year, which after taking account of the effects of inflation represents a real reduction of £14.9 million.

In July 1997 we acquired Hartlepool Water for £20.0 million. Its performance has been in line with our expectations and in the 9 months to the end of March it has contributed turnover of £4.7 million and operating profits of £1.7 million to the results of the group.

The results of Anglian Water International (AWI) show a reduction in turnover from £154.7 million to £132.2 million. Operating losses before exceptional items at £7.4 million are worse than the previous year but include a number of one off costs. The results continue to reflect our expenditure on marketing and bidding to become established in our target markets. In New Zealand the £68 million sewage treatment works at Moa Point is being commissioned and will be opened on time this year. There have been further successes. We have won a US$50 million contract (through our Joint Venture with American Water) to manage the water supply system for the city of Buffalo and a £40 million contract in Oslo in Norway as part of a consortium.

The AWI trading companies have shown an improvement in performance. A £0.2 million operating profit in 1997 has been turned into a profit of £2.3 million.

In March 1998 we sold two companies, Aquafine Engineering Services and Purac Engineering Inc., which were part of this sub-group but which did not fit in with our overall strategy. These were sold for £4.5 million and generated an exceptional profit (after the write back goodwill of £0.2 million) of £0.4 million in the profit and loss account.

The year has seen the development and growth of a number of UK commercial companies outside of our regulated business but which have synergies with our core activities. These companies have contributed turnover of £18.2 million and operating profit of £1.1 million to the group performance.

The group profits have benefited from £6.0 million profits on sale of properties as we continue to release surplus sites in AWS.

Net interest payable increased from £70.2 million to £83.7 million, reflecting the effect of the increase in borrowing necessary to finance the capital investment programme and the payment of the 'windfall' tax.

The group has, as anticipated, recognised a tax charge for the first time, although the mainstream corporation tax liability continues to be reduced by the capital allowances generated by our investment programme. The tax charge of £29.5 million comprises £8.9 million of mainstream corporation tax and £20.6 million of unrelieved advanced corporation tax (ACT) which we continue to write off.

The results include an exceptional tax charge of £131.8m. This is the 'windfall' tax which was levied as a one off charge in 1997. We paid £65.9 million in December 1997 with the second equal instalment due in December 1998.

Financial needs and resources

At 31 March 1998 the group had net borrowings of £1,148.6 million, an increase of £210.0 million over the year. The increased net borrowings have been financed by a US$166 million private placement and additional finance leasing of £88.1 million (including £75.0 million under a sale and leaseback transaction). Before investing activities, the business generated a net cash inflow of £439.5 million in 1998 (1997 £386.7 million).

Year end gearing (debt/equity) at 72.6 per cent compares to 59.4 per cent in 1997. Net borrowings are a mixture of fixed and variable rate debt of £1,203.0 million offset by cash and deposits of £54.4 million. Borrowings include £317.9 million at floating rates. The debt maturity profile is indicated in note 20 to the accounts. Our treasury policy reflects the need to secure funds to finance the substantial long term capital investment programme of our regulated water and sewerage business and the expansion of our non-regulated operations.

The majority of treasury activities are carried out in the UK. Borrowings include £182.6 million denominated in foreign currencies. Of this amount £177.5 million has been swapped to eliminate the risk of currency fluctuations.

The capital investment programme for the year with total expenditure at £383.4 million was 8.2 per cent higher than in 1997. The Managing Director's report on pages 6 to 17 gives more details on the programme itself. Investment in 1998/99 is expected to be at a comparable level.

Year 2000 and Euro

Work is progressing well throughout the group in achieving year 2000 compliance. There are two primary areas where we are affected; operational management systems with machine embedded chips, and our central IT functions. We have completed the planning of our activities to achieve full compliance of both business critical systems and our other IT applications. Early estimates indicate that the costs of compliance may be £32 million by 1999/2000.

We are also taking action to ensure that where appropriate, the group's systems are adapted to handle the introduction of the Euro following Economic and Monetary Union.

Shareholders' return and value created

Earnings (before exceptional charges) increased by 1.9 per cent from £233.9 million to £238.3 million. The full year dividend has been increased by 13.0 per cent from 34.5p to 39.0p, a real increase of 9.4 per cent over the average rate of inflation during the year. The increase arises from further increased efficiencies in the regulated business and the board's stated dividend policy.

To minimise the amount of irrecoverable ACT paid by Anglian Water (in the light of ACT changes which take effect from 6 April 1999) we are offering shareholders an enhanced scrip alternative to the final dividend of 30.0p, representing a 9.1% enhancement to the final dividend.

At 31 March 1998 we had in issue 13.6 million warrants to subscribe for ordinary shares. The final date for exercise of these warrants is 24 August 1998. Full exercise of the warrants would result in an increase of 5.0 per cent in the existing share capital.

To maintain the efficiency of the balance sheet following the exercise of the outstanding warrants and the implementation of the enhanced scrip dividend, we are proposing a reorganisation of the company's share capital.

The proposed reorganisation would involve converting the ordinary shares in issue into new ordinary shares of a lower nominal value and B shares with restricted rights. Anglian Water will offer to repurchase the B shares created as a result of the reorganisation at their nominal value. Assuming full exercise of the warrants and full take up of both the enhanced scrip dividend and the repurchase offer, the proposals, which are subject to shareholder approval, would result in the then issued share capital being restored to approximately its present level.

Current uncertainty surrounding the periodic review and future capital expenditure in particular means that the capital required to fulfil Anglian Water's strategic objectives is not yet quantifiable. The group will continue to review its balance sheet efficiency.

The dividend increase and the buyback confirm the board's commitment to delivering value to shareholders. The dividend is covered 2.3 times by earnings before exceptional items. It remains the board's intention, in the absence of unforeseen circumstances, to reduce the dividend cover progressively to a level of about 2 times on an historical costs basis by the end of the decade.

corporate governance

Overall 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 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.

The board currently comprises 11 members, six of whom are non-executive directors with a considerable breadth of business and environmental experience. The board meets regularly and monitors executive management through its review of strategic, operational and financial performance.

Any concerns which cannot be conveyed to the board through the Chairman or Group Managing Director may be conveyed through the Deputy Chairman, Mr Richard Jewson, who is also Chairman of the Audit Committee.

All board appointments are subject to full board approval and no director has a service contract of more than one year. The remuneration of executive directors is determined by the Remuneration Committee which is made up entirely of non-executive directors. Details of directors' remuneration are set out in the report of the Remuneration Committee on pages 22 to 25.

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 Directors' Responsibilities on page 21 and in the following explanations covering going concern and internal financial control.

The membership of the Audit and Remuneration Committees is set out on pages 2 and 3.

The quorum requirements of the Nominations Committee include a majority of non-executive directors.

Going concern

After making enquiries, the directors have a reasonable expectation that the group and 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 directors' 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 board and 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.

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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 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 20 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 20 have provided the disclosures required by the Listing Rules 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 20 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

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

26 May 1998

Price Waterhouse

report of the remuneration committee

The committee

The Remuneration Committee advises the board on the group's policy on executive remuneration and specifically determines the remuneration packages of each of the executive directors. The committee comprises all the non-executive directors of the company: Mrs J F de Moller (Chair), Mr R W Jewson, Mr D J Challen, Lord Cranbrook, Mr J B Cronin and Ms S A O'Sullivan.

The Chairman and Group Managing Director assist the committee where appropriate (except in relation to matters specifically concerning their own remuneration). The committee has access to the expertise available in the group's internal human resources function and receives professional advice from external sources when appropriate. A general review of all aspects of directors' remuneration is carried out annually, taking into account comparable practice and the performance of the group. In all respects, the committee complies with Section A of the best practice provisions annexed to the Stock Exchange Listing Rules.

Remuneration policy

In formulating remuneration policy, the committee gives full consideration to Section B of the best practice provisions annexed to the Stock Exchange Listing Rules. In particular, the committee aims to ensure that remuneration policies and practices are competitive and designed to attract, retain and motivate executive directors and other senior executives of high quality, and to reflect their levels of responsibility and experience. The policy also aims to align the interest of senior executives with those of the company's shareholders, by ensuring that annual bonuses reflect a balance between financial, environmental, water quality and customer service measures, whilst long-term incentives are focused on the total return to shareholders.

To assess competitive practice the committee reviews the size and content of remuneration packages against those in two groups of comparable 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 packages

Remuneration packages comprise four elements: base salary and benefits, annual bonus, long-term incentives and pension. The benefits include a car and insurances for life, disability, personal accident and health. In common with all staff, executive directors are eligible to participate in a Save As You Earn scheme, a Profit Sharing scheme and a profit-related pay scheme.

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

Service contracts

All executive directors now have service contracts with a notice entitlement of one year. None of the service contracts provides for pre-determined amounts of compensation in the event of early termination.

Incentive arrangements

Annual bonus scheme

The executive directors (with the exception of the Chairman) and other senior executives participate in an annual bonus scheme which rewards them for achieving demanding short-term performance targets addressing the interests of the group's shareholders, customers and regulators. The bonus, which is not pensionable, has a maximum of 30 per cent of base salary.

Performance is assessed using measured objectives for:

- financial targets (e.g. for the regulated company's operating costs and capital expenditure, performance of AWI and group 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.

To these is added an assessment of each individual's contribution to the business.

The committee recognises that it is in the interests of all shareholders that executive directors build up a personal stake in the company. To this end, the annual bonus scheme provides that one third of the post-tax annual bonus is to be paid in shares of equivalent value to be held in trust for the relevant participant for a period of two years.

Long Term Incentive Share Scheme

A Long Term Incentive Share Scheme was introduced in 1996. The scheme is designed to encourage continuing improvement in the group's performance in terms of shareholder return over the longer term. Its participants are the executive directors and a number of senior executives.

Under the scheme, each participant is conditionally awarded a number of shares based on a value equating to a percentage (not exceeding 45 per cent) of base salary. The proportion of the award to be released to each participant depends on the group'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 the median level there will be a progressive release of shares up to 100 per cent if the group's total shareholder return ranks in the top quartile of the comparator group. The release of shares to participants will be made four years after the initial award.

Pensions

Mr C J Mellor, Mr A F Smith, Mr J W Green and Mr R A Pointer have pension arrangements in the main group pension scheme as former members of the Anglian Water Mirror Image Pension Scheme. For all former members of the Mirror Image Scheme, the normal retirement age under the pension scheme is 65 with a maximum pension after 45 years' service equal to 56 per cent of pensionable salary, and a lump sum of 3.75 per cent of pensionable salary per year of service. Pensionable salary is defined as the base salary and benefits excluding bonus payments. The Mirror Image Scheme was established as a closed scheme at privatisation and these directors have been in the scheme or its predecessors throughout their employment with the group. The basis of calculating benefits for these directors is the same as for other employees in the same category including any benefits arising as a result of the merger of pension schemes referred to in note 27 to the accounts.

Mr R M Gourlay and Mr A T Eckford are members of the Anglian Water Executive Pension Scheme (for which all newly–recruited senior executives are eligible) to the extent permitted by Inland Revenue limits. For that element of base salary in excess of the limits, the group has established funded unapproved retirement benefit schemes. Apart from base salary, no benefits received by Mr R M Gourlay and Mr A T Eckford are pensionable. The scheme provides for a maximum pension after 20 years' service equal to two-thirds of salary (subject to Inland Revenue limits) and a normal retirement age of 60.

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 dependants.

Non-executive directors' fees

The fees for the non-executive directors are set by the board. With effect from 1 April 1998 the basic fee is £22,000 p.a. The Deputy Chairman is entitled to an additional fee of £9,000 p.a. (inclusive of any fees for chairing board committees). Each director who also chairs a main board committee is entitled to an additional fee of £5,000 p.a.

Other than Mr R W Jewson and Lord Cranbrook, who receive health insurance cover, the non-executive directors do not receive benefits or pension contributions from the group, nor do they participate in any of the group's incentive schemes.

Directors' emoluments

The emoluments of the directors of the company for their services as directors of the company and (where relevant) its subsidiaries are set out overleaf, rounded to the nearest thousand pounds.

report of the remuneration committee

Directors' emoluments

	Salary/fees £000	Benefits £000	Bonus £000	Other £000	1997/98 Total £000	1996/97 Total £000
R M Gourlay	130	10	–	–	140	133
A F Smith (resigned 31/12/97)[1]	143	8	22	205	378	216
C J Mellor	159	8	17	–	184	165
J W Green[2]	129	11	14	149	303	142
A T Eckford[3]	144	11	22	–	177	118
R A Pointer (appointed 19/1/98)	105	19	19	–	143	–
D J Challen	20	–	–	–	20	20
The Earl of Cranbrook[4]	24	1	–	–	25	24
R W Jewson	27	1	–	–	28	28
Mrs J F de Moller[4]	24	–	–	–	24	23
Ms S A O'Sullivan	20	–	–	–	20	13
J B Cronin	20	–	–	–	20	10
	945	69	94	354	1,462	892
Contributions to defined benefit pension schemes					104	124
					1,566	1,016

(1) Includes under 'Other' compensation for loss of office of £205,000 on retirement by mutual consent in December 1997.

(2) Includes under 'Other' compensation for loss of office of £149,000 on retirement by mutual consent in June 1998.

(3) Includes under 'Bonus' a £10,000 non-pensionable payment as agreed at time of appointment. A further payment of this amount is payable in the next financial year.

(4) Higher fees than in previous years arise from differences in timing of payments and impact of rounding.

The bonuses earned by the executive directors shown above are payable under the annual bonus scheme. One third of the post-tax bonus awarded under the scheme is paid in shares of equivalent value to be held in trust for two years.

Executive directors (other than the Chairman) also participate in the Long Term Incentive Share Scheme for which shareholder approval was obtained at the 1997 annual general meeting. A provision of £0.3m (1997–nil) is included 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 (1997 one director–£19,500).

The pensions benefits of directors in the year to 31 March 1998 are summarised below in accordance with the Listing Rules of the London Stock Exchange.

	Accrued pension 1998 £000[1]	Increase in accrued pension 1998 £000[2][3]	Accrued pension lump sum 1998 £000[4]	Transfer value of increase 1998 £000[5][6]	At 31 March 1997 Accrued pension £000[1]	At 31 March 1997 Accrued pension lump sum £000[4]
R M Gourlay	17	5	–	85	12	–
A F Smith	100	14	263	578	83	248
C J Mellor	64	7	172	104	55	149
J W Green	64	11	167	325	51	132
A T Eckford	8	5	–	72	3	–
R A Pointer	47	4	140	72	–	–

(1) The accrued pension entitlement shown is that which is payable annually on retirement based on service to the end of the financial year or date of leaving, as applicable.

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

(3) The increase in accrued pension includes amounts of £11,230 p.a. and £7,000 p.a. for Mr A F Smith and Mr J W Green respectively, reflecting top-ups of pensionable service, given in accordance with the group's practice to all members of the Mirror Image Pension Scheme who leave employment early at the group's request, are aged over 50 and have completed more than two years' service.

(4) The accrued pension lump sum shown is that which is payable on retirement based on service to the end of the financial year or date of leaving, as applicable.

(5) 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.

(6) Transfer values include for Mr A F Smith and Mr J W Green amounts reflecting the actuarial calculation of the service top-ups referred to in note (3) and the payment of pension prior to normal retirement date without application of a reduction.

Mr R M Gourlay and Mr A T Eckford participate in a funded unapproved retirement benefit scheme. The company contributed to these schemes in respect of Mr Gourlay £26,680 (1997–£38,464) and in respect of Mr Eckford £50,800 (1997–£30,600). These amounts are included in the table of pension benefits above.

The transfer values disclosed in the above table are actuarially determined to provide for pensions liability and not sums paid by the company to the individuals concerned. They cannot meaningfully be added to their annual remuneration.

The following annual salaries currently apply to executive directors: Mr R M Gourlay £134,000, Mr C J Mellor £200,000, Mr J W Green £135,000, Mr A T Eckford £152,000 and Mr R A Pointer £135,000.

Directors' interests in shares and debentures

The directors' interests in the shares of the company are shown below:

Beneficial and family interests in shares:	31 March 1998 no. of shares	1 April 1997 no. of shares
R M Gourlay	1,000	1,000
A F Smith*	11,338	10,643
C J Mellor	6,705	5,572
J W Green	10,747	16,545
A T Eckford	380	–
R A Pointer†	8,617	8,293
D J Challen	1,000	1,000
The Earl of Cranbrook	1,100	1,100
R W Jewson	840	840
Mrs J F de Moller	750	750
Ms S A O'Sullivan	250	–
J B Cronin	2,500	2,500

* at date of resignation (31 December 1997) and 1 April 1997 † at 31 March 1998 and date of appointment (19 January 1998)

The figures at 31 March 1998 include shares to which directors become entitled as the share element of the annual bonus scheme, being Mr A F Smith (671), Mr C J Mellor (509), Mr J W Green (426), Mr A T Eckford (380) and Mr R A Pointer (0).

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 A F Smith (11,502); Mr C J Mellor (20,664); Mr J W Green (17,848); Mr A T Eckford (20,594) and Mr R A Pointer (13,722). Those of Mr A F Smith were reduced from 27,264 at the time of his leaving the group and those of Mr J W Green will be reduced to 10,413 at the time of his leaving the group.

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 26.

	Options outstanding 1 April 1997*	Options granted		Options exercised				Options outstanding at 31 March 1998	
Executive share options	Number	Number	Option Price (£)	Number	Weighted average exercise Price (£)	Weighted average market Price (£)	Gain on exercise of options (£)	Number	Weighted average exercise Price (£)
C J Mellor	7,606	–	–	7,606	5.36	8.06	20,536	–	–
J W Green	27,100	–	–	–	–	–	–	27,100	5.16
R A Pointer	16,805	–	–	–	–	–	–	16,805	4.74
Sharesave scheme options									
R M Gourlay	3,709	–	–	–	–	–	–	3,709	4.65
A F Smith	3,087	–	–	–	–	–	–	3,087	3.84
C J Mellor	3,500	1,114	6.19	–	–	–	–	4,614	4.14
J W Green	3,751	–	–	–	–	–	–	3,751	3.47
A T Eckford	–	2,786	6.19	–	–	–	–	2,786	6.19
R A Pointer	4,122	–	–	–	–	–	–	4,122	4.27

*Or date of appointment if later.

No options lapsed during the year. Executive directors have 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 1998 was £9.37, and the range during the year was £6.30 to £9.67. At 31 March 1998, and throughout the year, Mr D J Challen held £24,000 of the company's 5 1/8 per cent Index Linked Loan Stock 2008.

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

On behalf of the board

June de Moller Chair, Remuneration Committee

directors' report

The directors have pleasure in presenting their report and the audited financial statements of Anglian Water Plc for the year ended 31 March 1998.

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 28 shows the group's results and retained profit for the year. An interim dividend of 11.5p per share was paid on 19 January 1998. The directors are recommending the payment of a final dividend of 27.5p per ordinary share to shareholders on the register at the close of business on 26 June 1998, making a total net dividend for the year of 39.0p. The final dividend, if approved at the annual general meeting, will be paid on 31 July 1998.

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 25 on page 41. Options outstanding (including options granted to directors detailed on page 25), under the company's Share Option Schemes at 31st March 1998 were as follows :

	No. of Shares	Date of Grant	Option Price
Sharesave Scheme	170,105	6 December 1990	£2.67
Sharesave Scheme	323,042	30 December 1991	£2.72
Sharesave Scheme	341,787	21 December 1992	£3.82
Sharesave Scheme	501,248	20 December 1993	£4.04
Sharesave Scheme	970,912	14 December 1995	£4.65
Sharesave Scheme	735,396	12 December 1996	£4.52
Sharesave Scheme	779,426	10 December 1997	£6.19
Executive Share Option Scheme	303	20 June 1990	£2.93
Executive Share Option Scheme	2,417	10 January 1991	£3.31
Executive Share Option Scheme	11,426	7 December 1991	£3.26
Executive Share Option Scheme	1,266	24 June 1992	£3.95
Executive Share Option Scheme	10,250	15 December 1992	£4.73
Executive Share Option Scheme	50,315	7 July 1993	£4.74
Executive Share Option Scheme	13,583	1 December 1993	£5.30
Executive Share Option Scheme	120,630	15 August 1994	£5.37
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 13,569,868 warrants were outstanding at 31 March 1998. 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 1998 and their biographies are shown on pages 2 and 3.

Mr R M Gourlay, Mr D J Challen and Mrs J de Moller retire by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election. Mr R M Gourlay has a service contract terminable on one year's notice on or after 1 May 1999 and Mr D J Challen and Mrs J de Moller do not have service contracts.

Mr R A Pointer, having been appointed during the year, offers himself for re-election. Mr R A Pointer has a service contract terminable on one year's notice.

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 25.

Substantial shareholdings

According to notifications received at 26 May 1998 there were no shareholders with 'material' interests (as defined in the Disclosure of Interests in Shares (Amendments) Regulations 1993) in 3 per cent or more of the company's issued share capital and none with any aggregate interest ("material" or otherwise) in 10 per cent or more.

Purchase of own shares

Permission was obtained from shareholders at the annual general meeting in July 1997 to purchase up to 10 per cent 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 a payment of £2 million to the Anglian Water Trust Fund (which was accrued in the 1997 accounts), and other charitable donations of £104,603. 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. The group operates 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.

The group is an equal opportunities employer and applications 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 disabled people 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 22 July 1998 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

Peter Nicoll

Peter Nicoll, 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		1998 £m	1997 £m
2	Turnover from continuing operations	850.1	837.1
	Operating costs:		
	–excluding exceptional charges	(498.6)	(509.9)
	–exceptional charges	–	(40.8)
3	Total operating costs	(498.6)	(550.7)
2, 6	Operating profit from continuing operations	351.5	286.4
5	Profit/(loss) on disposal of businesses within continuing operations	0.4	(8.2)
	Profit on sale of fixed assets within continuing operations	6.0	–
	Profit on ordinary activities before interest	357.9	278.2
7	Interest payable (net)	(83.7)	(70.2)
	Profit on ordinary activities before taxation	274.2	208.0
	Taxation:		
8	–excluding exceptional charge	(29.5)	(23.1)
9	–exceptional charge	(131.8)	–
	Total taxation	(161.3)	(23.1)
13	Profit for the financial year	112.9	184.9
10	Dividends	(105.9)	(93.4)
	Retained profit for the financial year	7.0	91.5
11	Earnings per share before exceptional items	88.0p	86.8p
11	Earnings per share after exceptional items	41.7p	68.6p

statement of total recognised gains and losses

for the year ended 31 March

		Group		Company	
Notes		1998 £m	1997 £m	1998 £m	1997 £m
	Profit/(loss) for the financial year	112.9	184.9	(31.5)	74.8
	Currency translation differences on foreign currency net investments	–	(0.6)	(0.1)	(0.2)
26	Total recognised gains and losses relating to the year	112.9	184.3	(31.6)	74.6

The notes on pages 31 to 45 form part of these financial statements.

balance sheets

at 31 March

Notes		Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
	Fixed assets				
14	Tangible assets	3,093.3	2,865.3	1.0	1.0
15	Investments	8.4	10.4	1,459.5	1,330.0
		3,101.7	2,875.7	1,460.5	1,331.0
	Current assets				
17	Stocks	13.0	15.5	–	–
18	Debtors	208.9	178.8	3.7	91.8
	Cash and deposits	54.4	76.9	75.8	98.8
		276.3	271.2	79.5	190.6
	Creditors: amounts falling due within one year				
19	Short-term borrowings	(132.6)	(51.4)	(69.1)	(20.9)
19	Other creditors	(399.7)	(323.3)	(192.0)	(129.8)
	Net current (liabilities)/assets	(256.0)	(103.5)	(181.6)	39.9
	Total assets less current liabilities	2,845.7	2,772.2	1,278.9	1,370.9
	Creditors: amounts falling due after more than one year				
20	Loans and other borrowings	(1,070.4)	(964.1)	(560.6)	(521.6)
21	Other creditors	(106.7)	(103.7)	–	–
		(1,177.1)	(1,067.8)	(560.6)	(521.6)
22	Provisions for liabilities and charges	(86.1)	(124.4)	–	–
		1,582.5	1,580.0	718.3	849.3
	Capital and reserves				
25,26	Called up equity share capital	271.7	270.4	271.7	270.4
26	Share premium account	17.5	11.7	17.5	11.7
26	Other reserves	37.9	38.5	37.9	38.5
26	Profit and loss account	1,255.4	1,259.4	391.2	528.7
	Total shareholders' funds (all equity)	1,582.5	1,580.0	718.3	849.3

The notes on pages 31 to 45 form part of these financial statements.

Approved by the board on 26 May 1998.

Robin Gourlay

R M Gourlay
Chairman

C J Mellor
Group Managing Director

group cash flow statement

for the year ended 31 March

Notes		1998 £m	1997 £m
29(a)	Net cash inflow from operating activities	439.5	386.7
	Returns on investments and servicing of finance		
	Interest received	10.9	9.3
	Interest paid	(78.1)	(67.3)
	Interest element of finance lease rental payments	(8.7)	(6.0)
	Dividends received from participating interests	0.4	1.5
		(75.5)	(62.5)
	Taxation		
	Windfall taxation paid	(65.9)	–
	Advance corporation tax paid	(23.3)	(19.9)
		(89.2)	(19.9)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	(345.2)	(322.3)
	Investment in infrastructure renewals	(40.0)	(32.4)
	Grants and contributions received	13.9	21.8
	Disposal of tangible fixed assets	11.3	3.3
	Purchase of own shares for Long Term Incentive Plan	–	(0.4)
		(360.0)	(330.0)
	Acquisitions and disposals		
	Investment in associated undertakings	(2.0)	(2.6)
	Repayment of loans by associated undertakings	–	0.3
29(c)	Purchase of subsidiary undertakings	(13.8)	–
29(b)	Disposal of subsidiary undertakings	4.0	5.0
		(11.8)	2.7
	Equity dividends paid	(97.0)	(84.5)
	Management of liquid resources		
29(d)	Decrease/(increase) in short-term deposits	20.1	(46.1)
	Net cash outflow before financing	(173.9)	(153.6)
	Financing		
	New share capital subscribed	6.5	3.3
	Increase in loans	102.1	150.0
29(e)	Repayments of amounts borrowed	(31.0)	(7.6)
	Amounts received under finance lease arrangements	75.0	–
	Capital element of finance lease rental payments	(5.3)	(0.4)
	Net cash inflow from financing	147.3	145.3
29(e)	Decrease in cash	(26.6)	(8.3)

The notes on pages 31 to 45 form part of these financial statements.

1. Accounting policies

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and, except as disclosed in note 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 and fair view since, as explained above,

1. Accounting policies continued

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 14. 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.

i) **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.

j) **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.

k) **Research and development**

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

l) **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.

m) **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	
	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m
By class of business						
Water supply and sewerage services	727.7	697.7	358.6	311.3	2,886.3	2,601.8
International	132.2	154.7	(7.4)	(24.9)	(2.4)	4.3
Other	18.2	6.9	1.1	–	17.2	1.5
Less intersegment trading	(28.0)	(22.2)	(0.8)	–	–	–
	850.1	837.1	351.5	286.4	2,901.1	2,607.6
By geographical origin						
United Kingdom	776.2	726.0	356.2	298.3	2,882.0	2,596.7
Europe	37.4	64.1	(2.8)	1.6	4.5	2.8
Other	36.5	47.0	(1.9)	(13.5)	14.6	8.1
	850.1	837.1	351.5	286.4	2,901.1	2,607.6
By geographical destination						
United Kingdom	768.7	728.9				
Europe	35.9	50.6				
Other	45.5	57.6				
	850.1	837.1				

The 'Other' segment in 1998 largely comprise the group's UK commercial activities.

Operating profit in 1997 is stated after exceptional charges to water supply and sewerage services of £22.0m and International of £18.8m.

Net operating assets are shown before deduction of net debt, dividends payable, corporation tax and advance corporation tax of £1,318.6m (1997–£1,027.6m).

The acquisition during the year described in note 16 relates to the water supply and sewerage services segment. This business contributed £4.7m to turnover, £1.7m to operating profit and £7.5m to net operating assets.

3. Operating costs	1998 Total £m	1997 Total £m
Raw materials and consumables	94.8	111.1
Other external charges	214.1	226.8
Staff costs (see note 12)	116.1	134.8
Change in stocks of finished goods and work in progress	2.8	(0.8)
Own work capitalised	(49.7)	(41.2)
	378.1	430.7
Dividends receivable from participating interests	(0.4)	(1.1)
Profit on sale of tangible fixed assets	(2.0)	(1.2)
Depreciation of tangible fixed assets	105.9	98.8
Provision for diminution in value of investments	3.1	8.9
Amortisation of deferred grants and contributions	(5.0)	(5.1)
Customer trust fund	–	2.0
Infrastructure renewals	18.9	17.7
Total net operating costs	498.6	550.7

Operating costs include the exceptional items set out in note 4. The analysis of these in 1997 is: other external charges £11.6m, staff costs £18.3m, provision for diminution in value of investments £8.9m and customer trust fund £2.0m.

4. Exceptional operating costs	1998 £m	1997 £m
Restructuring costs	–	22.0
Provision for diminution in value of investments	–	10.1
Contract and other provisions	–	6.7
Customer trust fund	–	2.0
	–	40.8

notes to the financial statements

5. Profit/(loss) on disposal of businesses within continuing operations	1998 £m	1997 £m
Profit on disposal	0.6	0.5
Goodwill written back	(0.2)	(8.7)
	0.4	(8.2)

On 25 March 1998 the group disposed of two subsidiaries, Aquafine Engineering Services Limited and Purac Engineering Incorporated. The disposal in 1997 was of the Products business.

6. Operating profit	1998 £m	1997 £m
Operating profit is stated after charging/(crediting):		
Share of losses of associated undertakings	0.9	0.5
Dividends receivable from participating interests	(0.4)	(1.1)
Hire of plant and machinery	1.5	1.2
Other operating lease costs	5.3	3.8
Research and development expenditure	5.6	6.6
Fees paid to auditors:		
for audit work (including £0.1m in respect of the company (1997 – £0.1m)).	0.4	0.4
for other work (including £0.1m overseas (1997 – £0.1m)).	0.3	0.3

7. Interest payable (net)	1998 £m	1997 £m
Overdrafts and short-term borrowings	7.7	9.5
Other loans	77.6	66.0
Finance leases	8.7	6.0
	94.0	81.5
Interest receivable	(10.3)	(11.3)
	83.7	70.2

Interest payable on loans includes the indexation element of the Index Linked Loan Stock (see note 20).

8. Taxation	1998 £m	1997 £m
Tax on profit on ordinary activities comprises:		
Corporation Tax at 31% (1997 – 33%)	8.9	–
Non-recoverable Advance Corporation Tax	20.6	23.1
	29.5	23.1

The actual rate of Corporation Tax is lower than 31% due to the availability of tax losses from earlier periods.
ACT is written off to the extent that it is not recoverable against the UK Corporation Tax liability for a particular year. The amount currently available for offset and subsequent credit to the profit and loss account is £198.5m (1997 – £177.9m), subject to the availability of sufficient UK taxable profits in future years.
No overseas tax liability arises. No provision for deferred taxation is required for the year ended 31 March 1998 (see note 23).

9. Exceptional taxation charge	1998 £m	1997 £m
Windfall tax on utilities	131.8	–

The tax is payable in 2 equal instalments on 1 December 1997 and 1 December 1998.

10. Dividends	1998 £m	1997 £m
Interim dividend 11.5p (1997–10.2p) per ordinary share	31.3	27.7
Proposed final dividend 27.5p (1997–24.3p) per ordinary share	74.6	65.7
	105.9	93.4

11. Earnings per share

Earnings per ordinary share has been calculated by dividing profit on ordinary activities after taxation of £112.9m (1997–£184.9m) by 270.9m (1997 – 269.6m) being the weighted average number of ordinary shares in issue during the year. Earnings per ordinary share would have been 46.3p higher in 1998 if calculated before the exceptional items (1997–18.2p). On a nil distribution basis earnings per ordinary share, after exceptional items, is 49.3p (1997–77.2p). Earnings per ordinary share is not materially affected if calculated on a fully diluted basis.

12. Employee information	1998 Total £m	1997 Total £m
Staff costs:		
Wages and salaries	105.2	114.1
Social security costs	9.9	10.8
Other pension costs (see note 27)	1.0	9.9
	116.1	134.8

The 1997 costs include exceptional charges of £18.3m (wages and salaries–£9.4m and other pension costs–£8.9m). Other pension costs is stated after crediting £8.5m (1997 – £9.7m) in respect of the amortisation of an actuarial surplus in each of the two main UK pension schemes (see note 27).

Average number of full time equivalent persons employed:	1998	1997
Water and sewerage services	4,140	4,278
International	798	979
Other	193	76
	5,131	5,333

The numbers include 554 full time equivalent persons employed outside the UK (1997–598).
Details of directors' emoluments and interests are included in the report on remuneration and other related matters on pages 22 to 25.

13. 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 loss for the financial year dealt with in the accounts of the parent company is £31.5m (1997–profit £74.8m).

notes to the financial statements

14. Tangible fixed assets	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Vehicles, plant and equipment £m	Total £m
The group					
Cost					
At 31 March 1997	57.3	1,260.8	1,861.7	407.9	3,587.7
Exchange adjustments	–	–	–	(0.7)	(0.7)
Acquisition of subsidiary undertaking	–	6.6	3.6	1.3	11.5
Disposal of subsidiary undertakings	(0.4)	–	–	(1.3)	(1.7)
Additions	3.6	94.9	93.3	151.9	343.7
Disposals	(8.2)	(0.2)	(0.2)	(9.6)	(18.2)
At 31 March 1998	52.3	1,362.1	1,958.4	549.5	3,922.3
Grants and contributions					
At 31 March 1997	–	102.5	–	–	102.5
Acquisition of subsidiary undertaking	–	1.1	–	–	1.1
Additions	–	7.2	–	–	7.2
At 31 March 1998	–	110.8	–	–	110.8
Depreciation					
At 31 March 1997	13.6	–	465.8	140.5	619.9
Exchange adjustments	–	–	–	(0.3)	(0.3)
Acquisition of subsidiary undertaking	–	–	1.7	0.8	2.5
Disposal of subsidiary undertakings	–	–	–	(0.8)	(0.8)
Charge for the year	2.2	–	78.9	24.8	105.9
Disposals	(1.4)	–	(0.1)	(7.5)	(9.0)
At 31 March 1998	14.4	–	546.3	157.5	718.2
Net book amount					
At 31 March 1998	37.9	1,251.3	1,412.1	392.0	3,093.3
At 31 March 1997	43.7	1,158.3	1,395.9	267.4	2,865.3

Tangible fixed assets of the group at 31 March 1998 include £352.1m of assets in the course of construction (1997–£353.2m) and also include land of £8.3m (1997–£8.9m) 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 1998 was £188.8m (1997–£101.1m). Depreciation charged on assets held under finance leases during the year ended 31 March 1998 amounted to £6.9m (1997–£4.1m).

	Freehold land and buildings £m
The Company	
Cost	
At 31 March 1997 and 31 March 1998	1.2
Depreciation	
At 31 March 1997 and 31 March 1998	0.2
Net book amount	
At 31 March 1997 and 31 March 1998	1.0

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 1998.

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Contracted for but not provided in the financial statements	265.1	177.3	–	–

15. 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 1997	–	2.9	3.9	6.8
Additions	–	1.7	0.3	2.0
Share of losses	–	(0.9)	–	(0.9)
At 31 March 1998	–	3.7	4.2	7.9
Loans				
At 31 March 1997	–	3.1	0.1	3.2
Provision for diminution in value	–	(3.1)	–	(3.1)
At 31 March 1998	–	–	0.1	0.1
Own shares				
At 31 March 1997 and 31 March 1998	0.4	–	–	0.4
Total				
At 31 March 1998	0.4	3.7	4.3	8.4
At 31 March 1997	0.4	6.0	4.0	10.4

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 & wastewater treatment	1,400,000	$1.4m	37.5	Ordinary $1 shares
VAKJC a.s.	Czech Rep	Water & wastewater treatment	158,440	KCS 158.4m	34	Ordinary KCS1,000 shares
Laqua Services Limited	England	Water & wastewater treatment	2	£2	50	Ordinary £1 shares
Exxchange Technology Limited	England	Marketing nitrate removal equipment	10,000	£10,000	50	Ordinary £1 shares
AmericanAnglian	USA	Wastewater 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.

Anglian Water LTIP Limited, 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, purchased 1,986 shares in the company during the year and now owns 68,291 shares (1997 – 66,305 shares) with an original cost of £0.4m; these had a market value of £0.6m at 31 March 1998.

15. Investments continued	Own shares £m	Cost £m	Provisions £m	Net book amount £m
The company				
Shares				
At 31 March 1997	–	869.8	(5.8)	864.0
Additions	–	21.8	–	21.8
At 31 March 1998	–	891.6	(5.8)	885.8
Loans				
At 31 March 1997	–	474.5	(8.9)	465.6
Net movement during the year	–	179.2	–	179.2
Provision for permanent diminution in value	–	–	(71.5)	(71.5)
At 31 March 1998	–	653.7	(80.4)	573.3
Own shares				
At 31 March 1997 and at 31 March 1998	0.4	–	–	0.4
Total				
At 31 March 1998	0.4	1,545.3	(86.2)	1,459.5
At 31 March 1997	0.4	1,344.3	(14.7)	1,330.0

The principal subsidiary undertakings of the group are listed in note 31 on page 45.

16. Acquisitions

On 14 July 1997 the group acquired 100% of the issued share capital of Hartlepool Water PLC for a consideration of £20.0m, including acquisition costs, payable in cash & loan notes. The acquisition was accounted for using the acquisition method and goodwill written off to reserves amounted to £11.2m. An analysis of assets and liabilities acquired is shown in note 29c. No fair value adjustments were required.

	Group	
17. Stocks	1998 £m	1997 £m
Raw materials and consumables	5.9	5.3
Work in progress	4.1	8.3
Finished goods	3.0	1.9
	13.0	15.5

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

	Group		Company	
18. Debtors	1998 £m	1997 £m	1998 £m	1997 £m
Amounts falling due within one year				
Trade debtors	145.6	132.0	–	–
Amounts recoverable on contracts	21.8	13.7	–	–
Amounts owed by subsidiary undertakings	–	–	1.5	89.6
Amounts owed by associated undertakings	–	0.5	–	–
Other debtors	23.9	20.9	0.3	0.2
Prepayments and accrued income	5.8	3.8	1.9	2.0
	197.1	170.9	3.7	91.8
Amounts falling due after more than one year				
Trade debtors	0.9	0.8	–	–
Prepaid pension contributions	10.9	6.4	–	–
Other debtors	–	0.7	–	–
	208.9	178.8	3.7	91.8

19. Creditors: amounts falling due within one year	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Bank overdrafts	42.5	18.4	–	–
Current portion of long-term loans	80.6	31.3	69.1	20.9
Obligations under finance leases	9.5	1.7	–	–
Short-term borrowings	132.6	51.4	69.1	20.9
Trade creditors	114.3	141.3	–	–
Payments on account in excess of contract value	22.9	10.1	–	–
Receipts in advance	48.1	42.7	0.4	–
Advance corporation tax	26.5	23.3	26.5	23.3
Amounts owed to subsidiary undertakings	–	–	7.2	26.2
Corporation tax and windfall tax	68.9	–	68.9	–
Other taxation and social security	4.4	4.4	0.7	0.1
Accruals and deferred income	40.0	35.8	13.7	14.5
Proposed dividends	74.6	65.7	74.6	65.7
Other creditors	399.7	323.3	192.0	129.8

20. Loans and other borrowings falling due after more than one year	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Repayable wholly after five years				
5⅛% Index Linked Loan Stock 2008 (a)	132.9	128.6	132.9	128.6
12% Fixed Rate Bonds 2014	100.0	100.0	100.0	100.0
European Investment Bank 2002 (Interest at 8.0%)	–	60.0	–	–
European Investment Bank 2003 (Interest at 6.6%)	10.0	10.0	–	–
European Investment Bank 2005 (Interest at 8.2%)	60.0	60.0	–	–
US$122m Private Placements 2006 (b)	79.1	79.1	72.6	74.6
8¼% Fixed Rate Bonds 2006	149.1	149.0	149.1	149.0
US$166m Private Placements 2012 (b)	98.4	–	98.4	–
Repayable by instalments, any of which is due for repayment after five years				
European Investment Bank 2004 (Interest at 11.5%)	12.1	13.2	–	–
European Investment Bank 2005 (Interest at 8.5%)	40.0	45.0	–	–
European Investment Bank 2007 (Interest at 10.25%)	8.2	9.1	–	–
European Investment Bank 2007 (Interest at 9.9%)	27.0	30.0	–	–
US$10m Private Placement (Interest at 6.71%)	5.1	5.8	5.1	5.8
Finance leases (c)	204.5	121.9	–	–
Other borrowings (d)	22.4	22.8	–	–
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	–	–
European Investment Bank 2002 (Interest at 8.0%)	60.0	–	–	–
6½% Fixed Rate Bonds 1998	64.6	64.1	64.6	64.1
£20m Private Placement 1997 (Interest at 9.07%)	–	20.0	–	20.0
Hartlepool Water loan notes 2002 (Interest at LIBOR minus 1.0%)	3.1	–	3.1	–
Other loans (d)	9.0	3.5	3.9	0.4
Total loans and other borrowings	1,160.5	997.1	629.7	542.5
Less amounts included in creditors falling due within one year	(90.1)	(33.0)	(69.1)	(20.9)
	1,070.4	964.1	560.6	521.6

20. Loans and other borrowings falling due after more than one year continued	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Due for repayment as follows:				
Between one and two years	46.1	77.6	0.6	64.9
Between two and five years	176.5	127.5	4.9	1.9
After five years	847.8	759.0	555.1	454.8
	1,070.4	964.1	560.6	521.6

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 £4.3m (1997–£2.8m) has been taken to the profit and loss account as part of interest payable.

b) The group has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US$122m Private Placements 2006 and the US$166m Private Placements 2012. In addition, through interest rate swaps, £59.8m of these borrowings are effectively at a fixed interest rate of 8.4%, £92.9m of the borrowings at a fixed rate of 7.5%, £19.3m at a floating rate of 3 month LIBOR + 0.39% and £5.5m at a floating rate of 6 month LIBOR + 0.29%.

c) Amounts due under finance leases comprise £9.5m (1997–£1.7m) payable within one year, £35.2m (1997–£20.2m) payable between one and five years and £159.8m (1997–£100.0m) payable after five years.

d) Of the unspecified loans and other borrowings, £20.9m (1997–£4.3m) are at fixed rates and the remainder are at variable rates. Loans and other borrowings include £1.0m (1997–£ 1.1m) secured on the revenues of a subsidiary undertaking.

21. Other creditors falling due after more than one year	Group 1998 £m	Group 1997 £m
Trade creditors	5.7	9.1
Receipts in advance	3.6	3.6
Accruals and deferred income	0.4	–
Deferred grants and contributions	97.0	91.0
	106.7	103.7

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

22. Provisions for liabilities and charges	Infrastructure renewals £m	Restructuring costs £m	Other provisions £m	Total £m
The group				
At 31 March 1997	88.5	30.8	5.1	124.4
Charge for the year	18.9	0.1	–	19.0
Utilised in the year	(39.7)	(16.5)	(1.1)	(57.3)
At 31 March 1998	67.7	14.4	4.0	86.1

Of the £14.4m (1997–£30.8m) balance of restructuring costs, £10.3m (1997–£17.8m) relates to pension obligations.

There were no provisions for liabilities and charges in the company.

23. Deferred taxation

In accordance with the group's accounting policy there is no requirement for a provision for deferred taxation at 31 March 1998. The group's full potential deferred taxation liability, calculated under the liability method at a tax rate of 31%, is:

	1998 £m	1997 £m
Accelerated capital allowances	237.9	245.6
Other timing differences	(10.5)	(46.1)
Available tax losses	(8.1)	(19.8)
Advance corporation tax	(141.5)	(108.9)
	77.8	70.8

Had provision for deferred taxation been made on the full liability method, there would have been a tax charge of £7.0m (1997–£16.7m).

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 £305.6m (1997–£287.0m), assuming a tax rate of 31%, 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 £57.0m (1997–£68.9m) which will be available to set against the group's liability on taxable profits arising in future periods.

24. Commitments under operating leases

At 31 March 1998 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	0.1	0.3
Between one and five years	0.6	0.8
After five years	2.3	–
	3.0	1.1

There were no such commitments by the company.

25. Share capital of Anglian Water Plc

	1998 £m	1997 £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	271.7	270.4
	271.7	270.4

During the year 129,328 options were exercised under the Executive Share Option Scheme at an average price of £4.99, giving rise to a share premium of £0.5m, 147,664 options were exercised under the Sharesave Scheme at an average price of £3.37, giving rise to a share premium of £0.4m and 1,081,132 warrants were exercised at a price of £4.95 giving rise to a share premium of £4.3m.

Details of outstanding options and warrants are shown in the directors' report on page 26.

notes to the financial statements

26. Movement in shareholders' funds

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	1998 Total £m	1997 Total £m
The group							
At beginning of year	270.4	11.7	29.7	8.8	1,259.4	1,580.0	1,477.1
Total recognised gains relating to the year	–	–	–	–	112.9	112.9	184.3
Dividends	–	–	–	–	(105.9)	(105.9)	(93.4)
Goodwill written back on disposal of subsidiaries	–	–	–	–	0.2	0.2	8.7
Goodwill written off	–	–	–	–	(11.2)	(11.2)	–
New share capital subscribed (see note 25)	1.3	5.8	–	(0.6)	–	6.5	3.3
At end of year	271.7	17.5	29.7	8.2	1,255.4	1,582.5	1,580.0
The company							
At beginning of year	270.4	11.7	29.7	8.8	528.7	849.3	864.8
Total recognised gains and losses relating to the year	–	–	–	–	(31.6)	(31.6)	74.6
Dividends	–	–	–	–	(105.9)	(105.9)	(93.4)
New share capital subscribed (see note 25)	1.3	5.8	–	(0.6)	–	6.5	3.3
At end of year	271.7	17.5	29.7	8.2	391.2	718.3	849.3

The cumulative goodwill taken to reserves, net of goodwill relating to undertakings disposed of, as at 31 March 1998 amounts to £73.2m (1997–£62.2m).

Other reserves comprise warrants to subscribe for equity share capital as described in the directors' report on page 26.

The movement on other reserves represents the premium on sale of the warrants exercised during the year transferred to the Share Premium Account.

27. 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.

Details of the most recent actuarial valuations of the schemes 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%

The AWMIS and AWPS schemes were merged after the year end on 1 May 1998. The next full actuarial valuation of the combined scheme will take place on 31 March 1999.

The regular pension cost for the year ended 31 March 1998 was £9.5m (1997–£10.7m) and included £0.2m (1997–£0.3m) for overseas schemes. These costs were offset by a credit of £8.5m (1997–£9.7m) in respect of the amortisation of actuarial surpluses in the AWMIS and AWPS schemes. At 31 March 1998 there was a prepayment in respect of pensions of £10.9m (1997–£6.4m).

28. 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 £68m 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 £13.0m at 31 March 1998 (1997–£11.0m).

29. Notes to the group cash flow statement

a) Reconciliation of operating profit to net cash inflow from operating activities	1998 £m	1997 £m
Operating profit	351.5	286.4
Dividends received from participating interests	(0.4)	(1.1)
Share of associated companies' losses	0.9	0.5
Profit on disposal of tangible fixed assets	(2.0)	(1.2)
Depreciation (net of amortisation of deferred grants and contributions)	100.9	93.7
Provision for infrastructure renewals	18.9	17.7
Net movement on pensions balances	(4.5)	(6.4)
Net movements on other provisions	(17.5)	22.6
Provision for diminution in value of investments	3.1	8.9
	450.9	421.1
Increase in working capital:		
Stocks	0.9	(1.5)
Debtors	(19.3)	(18.0)
Creditors	7.0	(14.9)
	(11.4)	(34.4)
Net cash inflow from operating activities	439.5	386.7

Net cash inflow from operating activities for the year ended 31 March 1998, is arrived at after cash outflows of £3.0m (1997–£4.5m) in relation to the 1994 exceptional restructuring charge and £nil (1997–£nil) relating to 1995 exceptional charges, and £14.6m relating to 1997 exceptional charges.

The cash flows of the business disposed of during the year were not material to the group's cash flows.

b) Disposal of subsidiary undertakings	1998 £m	1997 £m
Net assets/(liabilities) disposed of:		
Fixed assets	0.9	0.8
Stock	1.4	4.2
Debtors	3.2	6.2
Cash at bank	1.8	1.4
Bank overdrafts	(0.1)	(0.5)
Creditors	(4.2)	(6.2)
	3.0	5.9
Goodwill (previously written off)	0.2	8.7
Costs associated with disposal	0.9	0.8
Profit/(loss) on disposal	0.4	(8.2)
	4.5	7.2

notes to the financial statements

29. Notes to the group cash flow statement continued	1998 £m	1997 £m
Satisfied by:		
Cash	4.0	3.8
Cash in settlement of intra-group debt	0.5	2.2
Deferred consideration	–	1.2
	4.5	7.2
Analysis of the net inflow of cash in respect of the disposal of subsidiary undertakings:		
Cash received upon completion	4.5	6.0
Cash at bank of disposed subsidiary undertakings	(1.8)	(1.4)
Bank overdrafts of disposed subsidiary undertakings	0.1	0.5
Costs of disposal paid during the year	–	(0.1)
Cash received in respect of prior year disposal	1.2	–
Net inflow of cash in respect of the disposal of subsidiaries	4.0	5.0

c) Acquisition of subsidiary undertaking	£m	£m
Net assets/(liabilities) acquired:		
Fixed assets	7.9	–
Stock	0.3	–
Debtors	2.9	–
Cash at bank	3.1	–
Creditors	(3.6)	–
Loans	(1.8)	–
	8.8	–
Goodwill	11.2	–
	20.0	–
Satisfied by:		
Cash	16.9	–
Loan notes issued as part consideration	3.1	–
	20.0	–
Analysis of the net outflow of cash in respect of the acquisition of subsidiary undertaking:		
Cash paid upon completion	16.9	–
Cash at bank of acquired subsidiary	(3.1)	–
Net outflow of cash in respect of the acquisition of subsidiary	13.8	–

d) Analysis of net debt	1 April 1997 £m	Cash flows £m	Acquisition £m	Disposals £m	Non cash movements £m	Exchange movement £m	31 March 1998 £m
Cash	16.4	(3.9)	3.1	(1.8)	–	0.2	14.0
Bank overdrafts	(18.4)	(24.1)	–	0.1	–	(0.1)	(42.5)
	(2.0)	(28.0)	3.1	(1.7)	–	0.1	(28.5)
Short-term deposits	60.5	(20.1)	–	–	–	–	40.4
Debt due within 1 year	(33.0)	36.3	–	–	(93.7)	0.3	(90.1)
Debt due after 1 year	(964.1)	(177.1)	(4.9)	–	75.7	–	(1,070.4)
	(938.6)	(188.9)	(1.8)	(1.7)	(18.0)	0.4	(1,148.6)

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

e) **Movement in group net debt**

	1998 £m	1997 £m
At beginning of year	(938.6)	(831.8)
Decrease in cash	(26.6)	(8.3)
(Decrease)/increase in short-term bank deposits	(20.1)	46.1
Increase in loans	(195.1)	(150.0)
Repayment of loans	31.0	7.6
Indexation of loan stock	(4.3)	(2.8)
Amortisation of discount and expenses relating to debt issue	(0.6)	(0.7)
Exchange translation	0.4	0.9
Capital element of finance lease rental payments	5.3	0.4
At end of year	(1,148.6)	(938.6)

30. **Related party transactions**

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

31. **Principal group companies**

The principal subsidiary undertakings at 31 March 1998 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
Hartlepool Water PLC*	England	Water 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 AB	Sweden	Contracting for water and sewerage treatment Processes
Purac Industry AB	Sweden	
Purac GmbH	Germany	
Anglian Water International Pty Limited	Australia	
Purac Limited	England	
Purac Water Spolka Z.o.o.	Poland	
Kaldnes Miljoteknologi A/S	Norway	
Fluid Systems Corporation Inc.	USA	Water treatment products
Anglian Water International (NZ) Limited	New Zealand	Management and operation of wastewater projects
Other group companies		
Rutland Insurance Limited*	Guernsey	Provides insurance to group companies
Powermarque Limited*	England	Transport leasing and fleet maintenance services
Geodesys Limited*	England	Asset management services
Anglian Water Infrastructure Limited*	England	Próvision of infrastructure services to developers
Alpheus Environmental Limited	England	Wastewater 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 28 to 45 (including the additional disclosures on pages 24 and 25 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 31 and 32.

Respective responsibilities of directors and auditors

As described on page 21, 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 1998 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
Chartered Accountants
and Registered Auditors
Cornwall Court,
19 Cornwall Street,
Birmingham B3 2DT

26 May 1998

Price Waterhouse

group financial history

Profit and loss account	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m
Turnover					
Water supply and sewerage services	594.5	629.7	659.5	697.7	727.7
International	97.4	100.2	131.4	154.7	132.2
Other	5.0	–	–	6.9	18.2
Less intersegment trading	(9.0)	(9.8)	(15.2)	(22.2)	(28.0)
	687.9	720.1	775.7	837.1	850.1
Operating profit					
Water supply and sewerage services	171.8*	262.8*	298.9	311.3*	358.6
International	0.8	(6.3)	(5.7)	(24.9)§	(7.4)
Other	(4.3)	(0.9)	0.5	–	1.1
Less intersegment trading	(0.6)	–	–	–	(0.8)
	167.7	255.6	293.7	286.4	351.5
Profit on sale of fixed assets	1.6	3.2	1.2	–	6.0
Profit/(loss) on disposal of businesses	–	–	–	(8.2)	0.4
Interest payable (net)	(37.1)	(42.7)	(56.3)	(70.2)	(83.7)
Profit on ordinary activities before taxation	132.2	216.1	238.6	208.0	274.2
Taxation	(16.9)	(19.3)	(20.1)	(23.1)	(29.5)
Exceptional taxation charge	–	–	–	–	(131.8)
Profit for the financial year	115.3	196.8	218.5	184.9	112.9
Dividend per Ordinary share	22.8p	26.0p	30.0p	34.5p	39.0p
Earnings per Ordinary share	39.0p	66.4p	78.1p	68.6p	41.7p
Earnings per Ordinary share before exceptional charges	59.2p	71.1p	78.1p	86.8p	88.0p

Balance sheet	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m
Fixed assets	2,315.5	2,499.9	2,679.9	2,875.7	3,101.7
Net current liabilities†	(161.9)	(170.3)	(164.5)	(129.0)	(177.8)
Long-term liabilities	(66.4)	(76.8)	(88.3)	(103.7)	(106.7)
Provisions for liabilities and charges	(171.4)	(137.5)	(118.2)	(124.4)	(86.1)
Net borrowings	(503.0)	(584.7)	(831.8)	(938.6)	(1,148.6)
Shareholders' funds	1,412.8	1,530.6	1,477.1	1,580.0	1,582.5

* 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	Number of holdings	%	Balance as at 31 March 1998	%
1-99	3,699	4.97	142,083	0.05
100-499	38,892	52.30	7,556,330	2.78
500-999	24,730	33.25	16,352,156	6.02
1,000-4,999	5,919	7.96	9,134,404	3.36
5,000-9,999	258	0.35	1,731,912	0.64
10,000-49,999	377	0.51	8,785,713	3.23
50,000-99,999	168	0.23	11,792,444	4.34
100,000-highest	322	0.43	216,215,711	79.58
	74,365	100.00	271,710,753	100.00

Corporate bodies represent 89 per cent 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 by telephoning 01480 323186.

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 323000. www.anglianwater.co.uk

Advisers

Merchant bank

J. Henry Schroder & 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.

Greig Middleton & Co. Ltd, 12 Melville Crescent, Edinburgh EH3 7LU.

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	22 June 1998
Record date	26 June 1998
Annual general meeting	22 July 1998
Dividend payment	31 July 1998

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