providing solutions

annual report and accounts 1999

23-7-99
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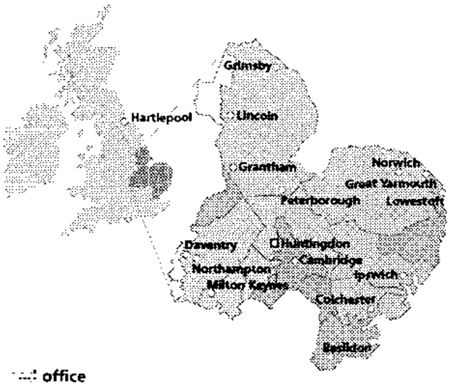
Anglian Water

contents

important note

This annual report and accounts contains detailed financial and statutory information for the group for the year ended 31 March 1999.

An annual review is also published which contains the chairman's statement, managing director's report and summary financial statement which, as a shareholder, you can receive free of charge. Please call – Freephone 0800-919155.



office
provide water and wastewater services in these areas
provide only water services in these areas
provide only wastewater services in these areas

Anglian Water Services is geographically the largest of the regional water and wastewater companies in England and Wales. We cover a region measuring 27,500 square kilometres, from the Humber in the North to the Thames in the South and from Daventry in Northamptonshire to the East Coast. Our business includes Hartlepool Water PLC.

water services
population: 4.1 million
properties supplied: 1.79 million
water treatment plants: 163

wastewater services
population: 5.4 million
properties supplied: 2.4 million
wastewater treatment plants: 1,075

million population served outside the UK

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

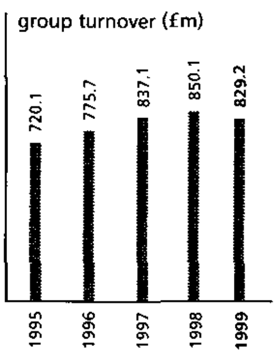
major subsidiaries and joint ventures

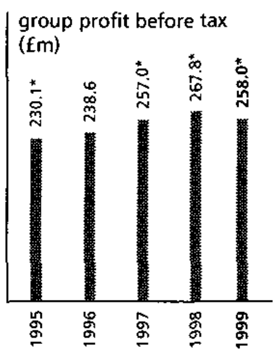
PURAC – process design and contracting for municipal and industrial water and wastewater treatment

AmericanAnglian – joint venture providing water and wastewater services in North America

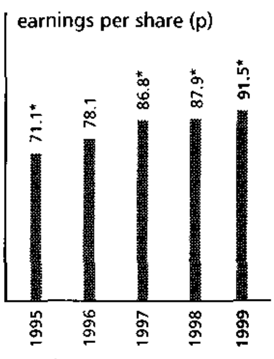
Vodovody a Kanalizace Jizni Cechy (VAKJC) – providing water and wastewater services in South Bohemia, Czech Republic

financial highlights

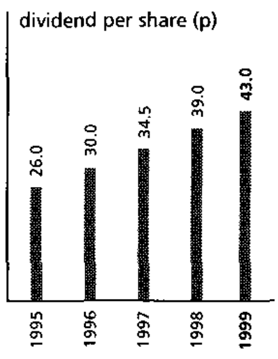




*before exceptional items



*before exceptional items



operating and financial review

operating results

	AWS	AWI	UK Commercial	Hartlepool	Other*	Total
	£m	£m	£m	£m	£m	£m
Group turnover						
1998/99	743.1	96.1	29.4	6.4	(45.8)	829.2
1997/98	723.0	132.2	18.2	4.7	(28.0)	850.1
Operating costs excl. exceptionals and depreciation						
1998/99	265.8	100.9	19.8	3.3	(44.3)	345.5
1997/98	250.2	137.2	14.7	2.4	(27.1)	377.4
Group operating profit before exceptionals						
1998/99	359.9	(5.8)	3.9	2.2	(1.5)	358.7
1997/98	356.9	(6.5)	1.7	1.7	(0.9)	352.9

* mainly elimination of intercompany trading

overview

The results represent another year of strong financial performance.

At a group level turnover has fallen from £850.1 million to £829.2 million, mainly due to the disposal of Fluid Systems in June 1998. Profit before tax has fallen from £274.2 million to £227.1 million after exceptional charges of £36.4 million principally in respect of our Year 2000 programme and the costs of centralising our Engineering division in a Centre of Excellence in Peterborough.

Earnings per share before exceptional items increased by 4.1 per cent from 87.9p to 91.5p.

Anglian Water Services Ltd (AWS)

Turnover increased by 2.8 per cent, this results mainly from price increases offset by the effect of customers switching to water meters. The percentage of turnover relating to measured customers increased to 36.2 per cent from 31.1 per cent reflecting the continuing trend of customers opting to switch to a meter.

Operating costs excluding exceptional charges and depreciation increased by 6.2 per cent to £265.8 million reflecting inflation offset by efficiency gains, plus the cost of a number of additional obligations including biosolids management, pensions costs, a further payment to the Anglian Water Trust fund and a higher charge for bad debts. There has also been additional investment in IT infrastructure.

Following a change in the method of accounting for infrastructure maintenance expenditure following the introduction of FRS 12, the total depreciation charge before exceptionals of £117.4 million now includes the charge previously shown separately as infrastructure renewals. We have also restated prior years to reflect the infrastructure renewals charge as depreciation and the actual expenditure incurred as additions to fixed assets. The effect on the balance sheet is to remove the infrastructure renewals provision at 31 March 1998 of £67.7 million and to reduce the net book value of fixed assets by the same amount.

During the year profits of £3.3 million arising on sale of properties were earned as we continued to release surplus sites in AWS.

Exceptional operating costs of £36.2 million and a further £0.2 million in other group companies, include a £15.0 million provision for the centralisation of the Engineering function and £17.5 million to ensure systems compliance with the millennium date change.

During the year considerable effort has been focused on the Periodic Review. This is the process through which Ofwat, the water industry regulator, will determine price limits for AWS for the five-year period commencing in April 2000. In accordance with the established process, AWS has made a number of submissions to Ofwat, culminating in the strategic business plan submission in early April 1999. Ofwat is now reviewing this and will issue a draft determination of price limits in July 1999 and, after further consultation, will issue a final determination in November 1999.

Hartlepool Water PLC

In its first full year since acquisition, Hartlepool Water PLC has continued to perform according to expectations, contributing turnover of £6.4 million and operating profits of £2.2 million to the results of the group. In February Ofwat granted an inset appointment to allow the company to supply water services to a planned business park within Northumbrian Water's area, the first inset for a greenfield site.

Anglian Water International (AWI)

Turnover fell from £132.2 million to £96.1 million, mainly as a result of the disposal of Fluid Systems in June 1998 and the completion of the construction phase of the Moa Point project in New Zealand.

Operating losses were reduced from £6.5 million to £5.8 million.

The disposal of Fluid Systems in June 1998, represented the final stage in our strategic exit from the product business. A gain on the disposal of £2.2 million was achieved.

Key business wins included a successful bid in partnership with Chilean utility company, Enersis, to operate water and wastewater services for Esval, the second largest supplier in Chile serving a population of 1.5 million. We invested £23.8 million in the project in April 1999.

We increased our stake in VAKJC in the Czech Republic from 34 per cent to just over 90 per cent, at a cost of £4.1 million. During May 1999 we took a controlling interest in another Czech water company, SMVAK.

UK Commercial

The group's UK commercial companies made sound progress in the year, winning further significant long-term contracts. These companies have contributed turnover of £29.4 million (1998 – £18.2m) and profit before tax of £2.1 million (1998 – £1.2 million) to the group performance.

interest and tax

Net interest payable increased from £84.2 million to £98.7 million, reflecting the effect of the increase in borrowing necessary to finance the capital investment programme, the second instalment of the windfall tax and the capital repayment to shareholders.

The tax charge of £3.4 million largely comprises £44.3 million of mainstream corporation tax, offset by recovery of Advance Corporation Tax (ACT) of £31.5 million plus a one-off credit of £9.6 million of ACT, resulting from shareholders taking up the enhanced scrip alternative to the final dividend.

financial needs and resources

At 31 March 1999 the group had net borrowings of £1,350.1 million, an increase of £201.5 million over the year. The increased borrowings have been financed by £400.0 million of fixed bonds and additional finance leasing of £7.7 million. The business generated a net cash inflow from operating activities of £437.7 million in 1999 (1998 – £440.0 million).

The capital investment programme for the year with total expenditure at £371.6 million was 3 per cent lower than in 1998. Investment in 1999/00 is expected to be at a comparable level.

management of financial risk

Major risks faced by the group include funding risk, interest rate risk and currency risk.

The board of Anglian Water Plc regularly reviews these risks and approves written policies covering treasury strategy and the use of financial instruments to manage risks. The last review was in May 1999 and treasury matters are reported monthly to the board.

The group's principal financial instruments comprise multi-currency capital markets debt, institutional private placements, bank loans, finance leases, cash and short-term deposits. The main purpose of these instruments is to raise finance for the group's operations.

operating and financial review

The group also enters into derivative transactions (principally currency and interest rate swaps) to manage the interest rate and currency risks arising from the group's operations and its sources of finance. It is, and has been, throughout the period under review, our policy that all financial instruments are held for risk management and that no trading in financial instruments is undertaken.

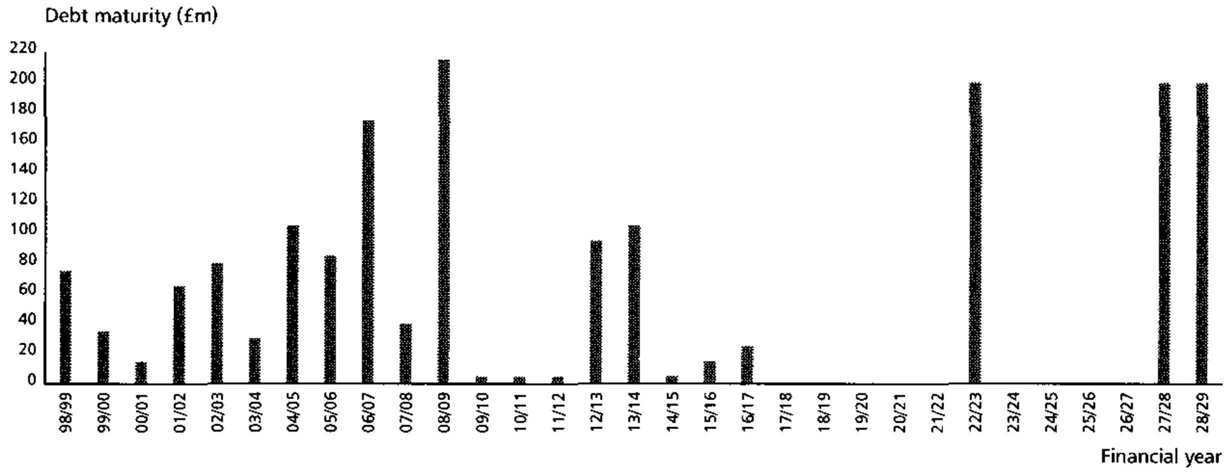
control of group treasury

Group financing, including debt, interest costs, and foreign exchange is substantially directed by a central treasury team reporting to the group finance director. Treasury policy is the efficient and effective management of cash and financial resources within the group. This involves focus on efficiency, quality and effective control to improve profitability. The group treasury function will actively seek opportunities to:

- secure funds and invest temporary surplus cash to best advantage at minimal financial risk;
- manage the group's foreign exchange and interest rate exposures to good effect;
- maintain a good financial reputation for the group with rating agencies, lenders and other creditors;
- provide advice to internal customers and promote cash awareness throughout the group;
- enhance control of financial resources.

liquidity

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of different financial instruments. At the year-end, the group held cash, deposits and current asset investments of £151.4 million and had undrawn committed multi-currency facilities of £355.0 million. These resources are maintained to ensure liquidity and the continuation of the investment programme of the group. The maturity profile of the group's borrowing is set out below.



borrowing covenants

With the exception of asset based funding in Anglian Water Services Ltd, Powermarque Ltd and some small overseas units, all group company borrowings are raised or guaranteed by Anglian Water Plc. In some instances, common financial covenants are given of interest cover of not less than two to one and a balance sheet gearing of not more than 175 per cent. Group treasury monitors compliance against all financial obligations and it is group policy to manage the consolidated balance sheet so as to operate within covenanted restrictions.

interest rates

The group borrows in markets to achieve optimum funding costs at both fixed and floating rates of interest and then uses interest rate derivatives to generate the desired interest and currency profile and to manage the group's exposure to interest fluctuations. At the year-end 80 per cent of the group's borrowings were at fixed rates after taking into account interest rate swaps. As the group has a substantial proportion of its income linked to inflation through its subsidiary, Anglian Water Services Ltd, the group has in addition £137.5 million or 10.2 per cent of its net debt hedged to inflation through an Index-Linked Loan Stock.

foreign currency

The group has small but growing foreign currency exposures resulting from overseas investments and from purchases and sales in foreign currencies. The group uses a range of instruments to hedge its exposures. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations on cash flows and profits. Accounting policy is to reflect the underlying nature of the transaction and any hedge.

The group's foreign exchange exposure management policy is to hedge material transactional exposures against the reporting currency. Forward foreign exchange contracts are used to hedge contractual exposures. The level of hedging undertaken is determined by policies set by the board. Forward cover is managed within these parameters in order to meet the objectives.

The group's policy is to hedge profits of overseas subsidiaries, using currency borrowings, only where these are reasonably certain.

Net assets are held in a number of currencies and translated at year-end rates. The resulting exposures are monitored and, where there is reasonable certainty that they can be covered by dividend flows, may be hedged by currency borrowing or cross-currency swaps.

The group is not currently exposed to significant foreign currency exposures. However these will continue to be monitored, particularly in relation to competition for international prospects from Euro-zone companies.

Year 2000 and Euro

Work throughout the group to achieve Year 2000 compliance is proceeding according to plan, with compliance for core embedded chips and IT systems on course for June 1999. A second phase has been looking at administrative buildings and business support processes and a third phase is updating contingency and emergency planning.

£22.0 million has been invested this year with £17.5 million charged as an exceptional operating cost and £4.5 million capitalised as a fixed asset. A further £6.0 million is expected to be invested in 1999/00.

The activities of Year 2000 programmes focus on achieving a significant reduction of the Year 2000 risk. However, there can be no guarantee that all components have been identified and fixed or that the programmes of critical suppliers have been successfully completed.

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

shareholders' return and value created

Earnings (before exceptional items) increased by 6.0 per cent from £238.3 million to £252.5 million. The full year dividend has been increased by 10.3 per cent from 39.0p to 43.0p, a real increase of 6.9 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.

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 company's capital reorganisation which was proposed last year was successfully implemented with 91.3 per cent of B shares repurchased by the company in September 1998. A further 5 per cent was repurchased in December, leaving only 3.7 per cent presently outstanding.

The dividend is covered 2.1 times by earnings before exceptional items.

future developments

Anglian Water's Vision is to become the UK's leading water and wastewater company by 2002, and one of the foremost in the world by 2007. The process, begun last year to transform the group in order to meet this objective, will make further significant progress in the coming year. This transformation is designed to rise to the regulators challenge in the UK and, at the same time, accelerate the growth of non-regulated earnings.

corporate governance

The company endorses the principles of good corporate governance which have been developed progressively since the Cadbury Report in 1992 and which are now set out in the Combined Code annexed to the Stock Exchange Listing Rules.

The board confirms that the company has applied the principles of good governance contained in the Combined Code and complied with its best practice provisions. The company, as permitted by the London Stock Exchange, has complied with the Combined Code provisions on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting issued in December 1994.

the board

The board currently comprises 11 members with a considerable breadth of business and environmental experience. Six of the members are independent non-executive directors who are free from any business or other relationship which could materially interfere with the exercise of their judgement. The board meets regularly and receives reports which allows them to monitor executive management through reviews of strategic, operational and financial performance.

The roles of chairman and managing director are separate and all directors have direct access to the advice of the company secretary and to independent professional advice.

Any concerns which cannot be conveyed to the board through the chairman or group managing director may be conveyed through the deputy chairman, Mr R W Jewson, who is also chairman of the audit committee.

At board level a Schedule of Reserved Matters and Scheme of Delegation have been in place for many years as have audit and remuneration committees. The opportunity has been taken to review and update all formal board processes prior to the commencement of the 1999/00 accounting period, in the light of the detailed recommendations underlying the new Combined Code.

All board appointments are subject to full board approval of candidates recommended by the nominations committee. Appropriate training and briefing is available to all directors on appointment to the board, taking into account their individual qualifications and experience.

directors' remuneration

The principles on performance-related remuneration contained in Schedule A to the Combined Code have been adopted and, consistent with the principles in Schedule B to the Combined Code, a remuneration report for 1998/99 is submitted to shareholders on pages 9 to 13 of this annual report.

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 remuneration report.

The constitution and terms of reference of the remuneration committee is in accordance with the principles of the Combined Code and the quorum requirements of the nominations committee include non-executive directors.

investor relations

The company maintains close contact with its major shareholders and will continue to use the annual general meeting as a vehicle for better communication with shareholders.

At the 1998 annual general meeting each substantially separate issue was put to the annual general meeting as an individual motion and the meeting was invited to adopt and approve the financial statements and the directors' report.

In line with the Combined Code, for the 1999 annual general meeting, the notice will be dispatched more than 20 working days in advance and the level of proxy votes lodged for and against each resolution will be disclosed at the meeting, together with details of any abstentions.

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 systems 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 to, and are accountable to, the audit committee. The audit committee comprises five non-executive directors with written terms of reference which deal clearly with its authority and duties. Through these arrangements the directors have reviewed the effectiveness of the group's systems of internal financial control.

The board believes that its reporting on the company's position and prospects is both balanced and understandable and that the respective responsibilities of the directors and the auditors are clearly stated and understood.

The board and senior management are currently updating and generally revising the existing controls operating in the group, to broaden their scope to enhance non-financial controls and to introduce a more structured approach to risk management which reflects the needs of different aspects of the group's activities. Properly documented procedures and controls already exist for the regulated business, including appropriate procedures to deal with emergencies. Policies are also in place to address key risks in the non-regulated businesses. Application of these is the particular responsibility of directors and senior management, supported by periodic audit reviews.

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.

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 (chairman), Mr R W Jewson, Mr D J Challen, Mr J B Cronin, Ms S A O'Sullivan and Baroness Young of Old Scone.

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 aspects, the committee complies with provisions of the Stock Exchange Combined Code on Corporate Governance.

remuneration policy

In formulating remuneration policy, the committee gives full consideration to the relevant provisions of the Stock Exchange Combined Code. 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 package

The remuneration package comprises 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 UK-based staff, executive directors are eligible to participate in a Save As You Earn scheme, a profit-sharing scheme and a profit-linked 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. In the case of Mr E M Mannis, who joined the board in July 1998, this notice may not take effect before 20 July 2000. None of the service contracts provide 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.

incentive arrangements (continued)

Performance is assessed using measured objectives for:

- financial targets (including the regulated company's profit and capital expenditure, performance of AWI and group earnings per share);
- water quality targets based on Drinking Water Inspectorate data;
- environmental targets based on Environment Agency 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 their 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 (ie, 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 of allocation 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

At privatisation the group established the Anglian Water Mirror Image Pension Scheme (AWMIPS) as a closed scheme and the Anglian Water Pension Scheme (AWPS) as a continuing scheme. The Anglian Water Executive Pension Scheme (AWEPS) was established in 1992. AWMIPS was merged into AWPS on 1 May 1998 and benefit improvements were given to 2,900 and 3,600 members and beneficiaries of AWMIPS and AWPS respectively as part of the merger process. Mr C J Mellor, Mr J W Green and Mr R A Pointer as former members of AWMIPS received benefit improvements on the same basis as for other such former members.

The normal retirement age for all members of AWPS is 65. Those members who were formerly in AWMIPS receive 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.

Mr R M Gourlay, Mr A T Eckford and Mr E M Mannis are members of AWEPS (for which all newly-recruited senior executives are eligible) to the extent permitted by Inland Revenue limits. Pension benefits are calculated on base salary only. For that element of base salary in excess of the limits, the group has established funded unapproved retirement benefit schemes. AWEPS 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. From 1 April 1998 the fees are £22,000 pa. The deputy chairman is entitled to additional remuneration of £9,000 pa (inclusive of any remuneration for chairing board committees). Each director who also chairs a main board committee is entitled to additional remuneration of £5,000 pa.

Other than Mr R W Jewson who receives 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 below, rounded to the nearest thousand pounds.

	Salary/fees £000	Benefits £000	Bonus £000	1998/99 Total £000	Restated(3) 1997/98 Total £000
R M Gourlay	138	7	–	145	140
A F Smith (resigned 31/12/97)	–	–	–	–	378
C J Mellor (appointed group managing director 1/1/98)	200	9	41	250	217
J W Green[1] (resigned 30/6/98)	34	3	–	37	313
A T Eckford[2]	152	7	41	200	192
E M Mannis (appointed 22/7/98)	97	13	29	139	–
R A Pointer (appointed 19/1/98)	135	9	28	172	144
D J Challen	22	–	–	22	20
The Earl of Cranbrook (resigned 22/7/98)	11	–	–	11	25
R W Jewson	31	1	–	32	28
J F de Moller	27	–	–	27	24
S A O'Sullivan	22	–	–	22	20
J B Cronin	22	–	–	22	20
Baroness Young of Old Scone (appointed 1/8/98)	15	–	–	15	–
	906	49	139	1,094	1,521
Contributions to defined benefit pension schemes				140	104
Gains on exercise of share options				20	21
				1,254	1,646

(1) Includes for 1997/98 compensation for loss of office of £149,000 on retirement by mutual consent in June 1998.

(2) Includes under 'Bonus' a £10,000 non-pensionable payment as agreed at time of appointment.

(3) In the prior year bonuses were disclosed on a cash basis. In the current year bonuses disclosed are those accrued for the year to 31 March 1999. Comparative figures have been restated.

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 £0.3 million (1998 – £0.3 million) is included in the accounts.

Included within non-executive directors' fees are amounts totalling £22,000 paid to third parties for making available the services of one of the non-executive directors (1998 one director – £19,500).

directors' emoluments (continued)

The pensions benefits of directors in the year to 31 March 1999 are summarised below in accordance with the Listing Rules of the London Stock Exchange (rounded to the nearest thousand pounds).

	Accrued pension 1999 £000(1)	Increase in accrued pension 1999 £000(2)	Accrued pension lump sum 1999 £000(3)	Transfer value of increases 1999 £000(4)(5)	At 31 March 1998 Accrued pension £000(1)	Accrued pension lump sum £000(3)
R M Gourlay	23	6	–	95	17	–
C J Mellor	89	25	223	412	64	172
J W Green	71	7	172	146	64	167
A T Eckford	14	6	–	70	8	–
R A Pointer	67	20	184	349	47	140
E M Mannis	3	3	–	19	–	–

(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 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.*
(4) The transfer value of the increase has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less directors' contributions.
(5) Transfer value of increases includes adjustment of pensions to reflect salary increases granted on promotion as well as, where relevant, the value of benefits given on merger of pension schemes on 1 May 1998.

Mr R M Gourlay, Mr A T Eckford and Mr E M Mannis participate in funded unapproved retirement benefit schemes. For the year 1998/99 the company contributed to these schemes in respect of Mr R M Gourlay £28,942 (1998 – £26,680), in respect of Mr A T Eckford £45,175 (1998 – £50,800) and in respect of Mr E M Mannis £11,235 (1998 – £nil). The value of the benefits attributable to these amounts is included in the table of pension benefits above.

The transfer values disclosed in the previous 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 £141,000, Mr C J Mellor £237,000, Mr A T Eckford £160,000, Mr R A Pointer £145,000 and Mr E M Mannis £150,000.

directors' interests in shares and debentures

Throughout this section, all interests in shares as at 31 March 1999 are in relation to new ordinary shares of 47 1/7 pence each following the capital reorganisation in 1998; interests as at any date prior to 28 September 1998 are in relation to ordinary shares of £1 each existing before such reorganisation. In general, a holding changed so as to be one of 14 new ordinary shares of 47 1/7 pence each for every 15 ordinary shares of £1 each previously held. No director has an interest in 'B' shares in the capital of the company.

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

Beneficial and family interests in shares:	31 March 1999 no. of shares	1 April 1998 no. of shares
R M Gourlay	1,011	1,000
C J Mellor	8,805	6,705
E M Mannis†	250	–
J W Green*	10,747	10,747
A T Eckford	833	380
R A Pointer	11,003	8,617
D J Challen	964	1,000
The Earl of Cranbrook§	1,100	1,100
R W Jewson	784	840
J F de Moller	723	750
S A O'Sullivan	233	250
Baroness Young of Old Scone†	–	–
J B Cronin	2,411	2,500

* at date of resignation (30 June 1998) and 1 April 1998. † at 31 March 1999 and date of appointment (Mr E M Mannis 22 July 1998 and Baroness Young of Old Scone 1 August 1998). § at date of resignation (22 July 1998) and 1 April 1998.

The figures at 31 March 1999 include ordinary shares held in trust for directors at that date as the share element of the annual bonus scheme, being Mr C J Mellor (920), Mr A T Eckford (755), Mr R A Pointer (91) and Mr E M Mannis (nil).

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 C J Mellor (30,748); Mr A T Eckford (28,258); Mr R A Pointer (20,528); Mr E M Mannis (7,059) and Mr J W Green (10,413) which were reduced from 17,848 at the time of his leaving the group.

Options to subscribe for ordinary shares, under the sharesave and executive share option 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. No options have been granted under the executive share option scheme since 1996.

	Options outstanding 1 April 1998*	Options granted		Options exercised				Options outstanding at 31 March 1999	
Sharesave scheme options	Number	Number	Option price (£)	Number	Weighted average exercise price (£)	Weighted average market price (£)	Gain on exercise of options (£)	Number	Weighted average exercise price (£)
R M Gourlay	3,709	–	–	–	–	–	–	3,709	4.65
C J Mellor	4,614	–	–	1,897	3.82	9.37	10,528	2,717	5.24
E M Mannis*	–	1,360	7.12	–	–	–	–	1,360	7.12
A T Eckford	2,786	–	–	–	–	–	–	2,786	6.19
R A Pointer	4,122	544	7.12	1,897	3.82	8.62	9,106	2,769	5.14
Executive share options									
R A Pointer	16,805	–	–	–	–	–	–	16,805	4.74

*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 1999 was £7.60, and the range during the year was £7.03 to £9.55. At 31 March 1999, 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
chairman, remuneration committee

irectors' report

ne directors have pleasure in presenting their report and the audited financial statements of Anglian Water Plc for the year nded 31 March 1999.

principal activities, business review and future developments

'he principal activities of the group during the year were water supply and distribution, wastewater collection and treatment, 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 2 to 5. Events occurring after the balance sheet date are described in note 33.

group results and dividends

The profit and loss account on page 16 shows the group's results and retained profit for the year. An interim dividend of 12.8p per share was paid on 6 April 1999. The directors are recommending the payment of a final dividend of 30.2p per ordinary share to shareholders on the register at the close of business on 25 June 1999, making a total net dividend for the year of 43.0p. The final dividend, if approved at the annual general meeting, will be paid on 4 August 1999.

research and development

The group and its subsidiaries have a continuing policy of undertaking market-focused research and development on process plant, biosolids treatment, automatic meter reading and other water and wastewater-related matters.

share capital

Details of Anglian Water Plc's share capital are shown in note 27 on page 36. Options outstanding under the company's share option schemes at 31 March 1999 were as set out below. These include options granted to directors and are detailed on page 13.

As at 31 March 1999 these options were over ordinary shares of $47^{1}/_{7}$p each.

	No. of Ordinary Shares	Date of Grant	Option Price
Sharesave scheme	29,001	30 December 1991	£2.72
Sharesave scheme	103,871	21 December 1992	£3.82
Sharesave scheme	453,362	20 December 1993	£4.04
Sharesave scheme	879,910	14 December 1995	£4.65
Sharesave scheme	657,928	12 December 1996	£4.52
Sharesave scheme	728,308	10 December 1997	£6.19
Sharesave scheme	743,947	9 December 1998	£7.12
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	633	24 June 1992	£3.95
Executive share option scheme	7,239	15 December 1992	£4.73
Executive share option scheme	45,317	7 July 1993	£4.74
Executive share option scheme	13,583	1 December 1993	£5.30
Executive share option scheme	101,315	15 August 1994	£5.37
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.

directors

The names of the directors who served during the year, and relevant dates, are contained in the remuneration report. Biographies of directors at 31 March 1999 are on page 42.

Mr C J Mellor, Mr A T Eckford and Mr J Cronin retire by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election. Mr C J Mellor and Mr A T Eckford have service contracts terminable on one year's notice. Mr J Cronin does not have a service contract.

Mr E M Mannis and Baroness Young of Old Scone, having been appointed during the year, offer themselves for re-election. Mr E M Mannis has a service contract terminable on one year's notice to take effect on or after 20 July 2000. Baroness Young of Old Scone does not have a service contract.

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 in the remuneration report.

substantial shareholdings

According to notifications received at 24 May 1999 there were no shareholders with 'material' interests (as defined in the Disclosure of Interests in Shares (Amendments) Regulations 1993) in three 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 extraordinary general meeting in September 1998 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 and to purchase B shares following the capital reorganisation. During the year the company repurchased 279,827,168 B shares at a nominal value of 56 pence each for total consideration of £156.7 million as set out in note 27 to the accounts. This represented 96 per cent of the B shares in issue, which in total represented 56 per cent of the total issued capital of the company.

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. At 31 March 1999, the group had 60 days purchases outstanding (1998 – 60 days).

charitable and political donations

During the year the group made a payment of £2.0 million to the Anglian Water Trust fund and other charitable donations of £127,929 (1998–£104,603).

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.

auditors

Following the merger of Price Waterhouse and Coopers & Lybrand, Price Waterhouse resigned as the company's auditors and the directors appointed PricewaterhouseCoopers to fill the casual vacancy in the office of auditors. PricewaterhouseCoopers 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 28 July 1999 is sent to shareholders with this report, or with the annual review, 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
25 May 1999

group profit and loss account

for the year ended 31 March

Notes		1999 Before exceptional items £m	1999 Exceptional items £m	1999 Total £m	1998 Before exceptional items £m	1998 Exceptional items £m	1998 Total £m
	Turnover: total group and share of joint ventures	838.0	–	838.0	856.8	–	856.8
	Less: share of joint ventures turnover	(8.8)	–	(8.8)	(6.7)	–	(6.7)
2	Group turnover	829.2	–	829.2	850.1	–	850.1
	Operating costs						
3	– Depreciation net of amortisation of grants and contributions	(125.0)	(1.4)	(126.4)	(119.8)	–	(119.8)
3	– Other	(345.5)	(35.0)	(380.5)	(377.4)	–	(377.4)
3	Total operating costs	(470.5)	(36.4)	(506.9)	(497.2)	–	(497.2)
	Group operating profit	358.7	(36.4)	322.3	352.9	–	352.9
	Share of operating loss in						
	– joint ventures	(1.9)	–	(1.9)	(0.9)	–	(0.9)
	– associates	(0.1)	–	(0.1)	–	–	–
	Total operating profit: group and share of joint ventures and associates	356.7	(36.4)	320.3	352.0	–	352.0
5	Profit on disposal of businesses	–	2.2	2.2	–	0.4	0.4
6	Profit on sale of fixed assets	–	3.3	3.3	–	6.0	6.0
2	Profit on ordinary activities before interest	356.7	(30.9)	325.8	352.0	6.4	358.4
8	Interest payable (net)	(98.7)	–	(98.7)	(84.2)	–	(84.2)
	Profit on ordinary activities before taxation	258.0	(30.9)	227.1	267.8	6.4	274.2
9	Tax on profit on ordinary activities	(5.5)	2.1	(3.4)	(29.5)	(131.8)	(161.3)
	Profit on ordinary activities after taxation for the financial year	252.5	(28.8)	223.7	238.3	(125.4)	112.9
10	Dividends – including non equity	(118.9)	–	(118.9)	(105.9)	–	(105.9)
	Retained profit for the financial year	133.6	(28.8)	104.8	132.4	(125.4)	7.0
11	Earnings per share – basic	91.5p	(10.5p)	81.0p	87.9p	(46.3p)	41.6p
11	Earnings per share – fully diluted	–	–	80.5p	–	–	40.6p

The results above arise from continuing operations.

Acquisitions during the year have contributed £4.2 million towards turnover and £0.2 million towards operating profit.

The presentation of the results of joint ventures and associates has been amended following the adoption of FRS 9 'Associates and joint ventures'.

statement of total recognised gains and losses

for the year ended 31 March

Notes		Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
	Profit/(loss) on ordinary activities after taxation for the financial year	223.7	112.9	378.3	(31.5)
	Currency translation differences on foreign currency net investments	(0.1)	–	–	(0.1)
28	Total recognised gains and losses relating to the year	223.6	112.9	378.3	(31.6)

The notes on pages 21 to 39 form part of these financial statements.

balance sheets

at 31 March

Notes		Group 1999 £m	Group As restated 1998 £m	Company 1999 £m	Company 1998 £m
	Fixed assets				
14	Intangible assets	0.7	–	–	–
15	Tangible assets	3,250.1	3,025.6	1.0	1.0
16	Investments				
	Joint ventures:				
	–share of gross assets	4.1	3.3	–	–
	–share of gross liabilities	(2.0)	(1.7)	–	–
		2.1	1.6	–	–
	Associates	0.4	2.1	–	–
	Other investments	4.8	4.7	1,664.2	1,459.5
	Total investments	7.3	8.4	1,664.2	1,459.5
		3,258.1	3,034.0	1,665.2	1,460.5
	Current assets				
18	Stocks	11.7	13.0	–	–
19	Debtors	224.8	208.9	305.4	3.7
20	Investments	50.0	–	50.0	–
	Cash and deposits	101.4	54.4	14.7	75.8
		387.9	276.3	370.1	79.5
	Creditors: amounts falling due within one year				
21	Short-term borrowings	(65.8)	(132.6)	(0.9)	(69.1)
21	Other creditors	(367.4)	(399.7)	(142.2)	(192.0)
		(433.2)	(532.3)	(143.1)	(261.1)
	Net current (liabilities)/assets	(45.3)	(256.0)	227.0	(181.6)
	Total assets less current liabilities	3,212.8	2,778.0	1,892.2	1,278.9
	Creditors: amounts falling due after more than one year				
22	Loans and other borrowings	(1,435.7)	(1,070.4)	(962.2)	(560.6)
23	Other creditors	(95.2)	(106.7)	–	–
		(1,530.9)	(1,177.1)	(962.2)	(560.6)
24	Provisions for liabilities and charges	(25.3)	(18.4)	–	–
		1,656.6	1,582.5	930.0	718.3
	Capital and reserves				
27,28	Called up share capital	134.1	271.7	134.1	271.7
28	Share premium account	79.0	17.5	79.0	17.5
28	Other reserves	186.4	37.9	186.4	37.9
28	Profit and loss account	1,256.2	1,255.4	530.5	391.2
	Total shareholders' funds	1,655.7	1,582.5	930.0	718.3
	Equity minority interest	0.9	–	–	–
	Capital employed	1,656.6	1,582.5	930.0	718.3
	Analysed as:				
	Equity	1,650.6	1,582.5	924.0	718.3
	Non-equity	6.0	–	6.0	–
		1,656.6	1,582.5	930.0	718.3

The presentation of the group balance sheet has been amended following the adoption of FRS 9 'Associates and joint ventures' and FRS 12 'Provisions, contingent liabilities and contingent assets' as explained in note 1 of the financial statements.

The notes on pages 21 to 39 form part of these financial statements.

Approved by the board on 25 May 1999.

R M Gourlay
chairman

E M Mannis
group finance director

group cash flow statement

for the year ended 31 March

Notes		1999 £m	1998 £m
(a)	Net cash inflow from operating activities	437.7	440.0
	Returns on investments and servicing of finance		
	Interest received	10.0	10.9
	Interest paid	(79.8)	(78.1)
	Interest element of finance lease rental payments	(16.8)	(9.2)
	Dividends received from trade investments	0.5	0.4
		(86.1)	(76.0)
	Taxation		
	Windfall taxation paid	(65.9)	(65.9)
	Corporation Tax paid	(3.7)	–
	Advance Corporation Tax paid	(17.3)	(23.3)
		(86.9)	(89.2)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	(377.3)	(385.2)
	Grants and contributions received	23.1	13.9
	Disposal of tangible fixed assets	12.4	11.3
		(341.8)	(360.0)
	Acquisitions and disposals		
	Investment in joint ventures and associated undertakings	(2.9)	(2.0)
(b)	Purchase of subsidiary undertakings	(3.4)	(13.8)
(c)	Disposal of subsidiary undertakings	21.4	4.0
		15.1	(11.8)
	Equity dividends paid	(38.0)	(97.0)
	Management of liquid resources		
(d)	(Increase)/decrease in short-term deposits and investments	(109.5)	20.1
	Net cash outflow before financing	(209.5)	(173.9)
	Financing		
	New share capital subscribed	72.4	6.5
	Share buyback	(158.6)	–
	Increase in loans	395.5	102.1
(e)	Repayments of amounts borrowed	(76.6)	(31.0)
	Amounts received under finance lease arrangements	7.6	75.0
	Capital element of finance lease rental payments	(7.2)	(5.3)
	Net cash inflow from financing	233.1	147.3
(e)	Increase/(decrease) in cash	23.6	(26.6)

The notes on pages 19 and 20 form part of this cash flow statement.

Prior year cash flows relating to infrastructure are now included in the purchase of tangible fixed assets.

notes to the group cash flow statement

a) **Reconciliation of operating profit to net cash inflow from operating activities**

	1999 £m	1998 £m
Operating profit	322.3	352.9
Dividends received from trade investments	(0.5)	(0.4)
Profit on disposal of tangible fixed assets	(0.8)	(2.0)
Depreciation (net of amortisation of deferred grants and contributions)	126.4	119.8
Net movement on pensions balances	(2.4)	(4.5)
Net movement on other provisions	5.0	(14.4)
	450.0	451.4
(Increase)/decrease in working capital:		
Stocks	(3.5)	0.9
Debtors	(23.2)	(19.3)
Creditors	14.4	7.0
	(12.3)	(11.4)
Net cash inflow from operating activities	437.7	440.0

Net cash inflow from operating activities for the year ended 31 March 1999, is arrived at after deducting cash outflows to meet pension enhancements incurred and provided for as exceptional operating charges for restructuring in prior years of £8.7 million (1998–£17.6 million). The movement on the provision is shown in note 24. Cash out flows of £2.1 million relate to 1999 exceptional charges.

b) **acquisition of subsidiary undertakings**

	1999 £m	1998 £m
Net assets/(liabilities) acquired:		
Fixed assets	6.3	7.9
Stocks	0.5	0.3
Debtors	4.7	2.9
Cash at bank	0.9	3.1
Creditors	(4.1)	(3.6)
Loans	–	(1.8)
	8.3	8.8
Less minority interest share of net assets acquired	(0.9)	–
	7.4	8.8
Goodwill	0.7	11.2
	8.1	20.0
Satisfied by:		
Cash	7.8	16.9
Deferred consideration	0.3	–
Loan notes issued as part consideration	–	3.1
	8.1	20.0

Analysis of the net outflow of cash in respect of the acquisition of subsidiary undertakings:

	1999 £m	1998 £m
Total cash paid	7.8	16.9
Less cash paid in previous accounting period	(3.5)	–
Cash at bank of acquired subsidiaries	(0.9)	(3.1)
Net outflow of cash in respect of the acquisition of subsidiaries	3.4	13.8

notes to the group cash flow statement

c) **Disposal of subsidiary undertakings**

	1999 £m	1998 £m
Net assets/(liabilities) disposed of:		
Fixed assets	4.1	0.9
Stocks	5.3	1.4
Debtors	4.2	3.2
Cash at bank	0.8	1.8
Bank overdrafts	–	(0.1)
Creditors	(5.0)	(4.2)
Loans	(6.7)	–
	2.7	3.0
Goodwill (previously eliminated against reserves)	16.2	0.2
Costs associated with disposal	1.8	0.9
Profit on disposal	2.2	0.4
Satisfied by cash	22.9	4.5

Analysis of the net inflow of cash in respect of the disposal of subsidiary undertakings:

	1999 £m	1998 £m
Cash received upon completion	22.9	4.5
Cash at bank of disposed subsidiary undertakings	(0.8)	(1.8)
Bank overdrafts of disposed subsidiary undertakings	–	0.1
Costs of disposal paid during the year	(0.7)	–
Cash received in respect of prior year disposal	–	1.2
Net inflow of cash in respect of the disposal of subsidiaries	21.4	4.0

d) **analysis of net debt**

	1 April 1998 £m	Cash flows £m	Acquisitions £m	Disposals £m	Non cash movements £m	Exchange movement £m	31 March 1999 £m
Cash	14.0	(12.6)	0.9	(0.8)	–	–	1.5
Bank overdrafts	(42.5)	36.1	–	–	–	–	(6.4)
	(28.5)	23.5	0.9	(0.8)	–	–	(4.9)
Deposits and investments	40.4	109.5	–	–	–	–	149.9
Debt due within 1 year	(90.1)	83.8	–	6.7	(59.8)	–	(59.4)
Debt due after 1 year	(1,070.4)	(403.1)	–	–	38.0	(0.2)	(1,435.7)
	(1,148.6)	(186.3)	0.9	5.9	(21.8)	(0.2)	(1,350.1)

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.
Management of liquid resources shown in the cash flow statement comprises movements in short term deposits, which have maturity dates of up to one year.

e) **movement in group net debt**

	1999 £m	1998 £m
At beginning of year	(1,148.6)	(938.6)
Increase/(decrease) in cash	23.6	(26.6)
(Increase)/decrease in short-term deposits and investments	109.5	(20.1)
Increase in loans and finance lease arrangements	(403.1)	(177.1)
Repayment of amounts borrowed	76.6	31.0
Disposals/(acquisitions)	6.7	(4.9)
Non cash finance lease inceptions	(16.6)	(13.1)
Indexation of loan stock	(4.6)	(4.3)
Amortisation of discount and expenses relating to debt issue	(0.6)	(0.6)
Exchange translation	(0.2)	0.4
Capital element of finance lease rental payments	7.2	5.3
At end of year	(1,350.1)	(1,148.6)

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 1f below as relating to grants and contributions, in accordance with the Companies Act 1985. The following principal accounting policies have been applied:

a) **changes in presentation of financial statements**

A number of new Financial Reporting Standards (FRS) introduced during the year have been adopted with no material effect on the group's financial reporting, except as noted below:

The disclosure of the results of the group's interest in joint ventures is in accordance with FRS 9 'Associates and Joint Ventures' where the turnover, operating profit and interest are reported on the face of the profit and loss account and the group's share of gross assets and liabilities is reported on the face of the balance sheet.

It has been necessary to change the method of accounting for infrastructure maintenance expenditure following the introduction of FRS 12 'Provisions, contingent liabilities and contingent assets' as it is no longer possible to account for the difference between planned and actual expenditure on infrastructure renewals as a provision or prepayment. As a consequence the balance sheet has been restated to take account of necessary changes since the year to 31 March 1989, when renewal accounting was first adopted in the accounts, and any previous provisions or prepayments have been subsumed into fixed assets. This had the effect of removing the provision for infrastructure renewals of £67.7 million at 31 March 1998 and reducing fixed assets by the same amount. This change of accounting disclosure has no effect on the profit and loss account other than to reclassify the renewal charge of £17.8 million (1998–£18.9 million) as depreciation. The comparative amounts have been restated.

The calculation of earnings per share has been performed in accordance with FRS 14 'Earnings per share' and comparative figures have been restated.

Comparative figures have been reanalysed to conform with changes in presentation of costs in the current year.

b) **basis of consolidation**

The group accounts comprise a consolidation of the accounts of the company and all 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 per cent 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. The group's share of turnover, operating profit and interest in joint ventures has been reported on the face of the profit and loss account and the group's share of gross assets and liabilities has been reported on the balance sheet.

c) **goodwill**

On the acquisition of a subsidiary undertaking, fair values are attributed to the net assets/liabilities acquired. Goodwill represents the difference between the purchase consideration and the fair values. Goodwill arising on acquisitions prior to 31 March 1998 was set off directly against reserves and has not been reinstated on implementation of FRS 10. Positive goodwill arising on acquisitions since this date is capitalised in the financial statements as an intangible asset and amortised on a straight line basis over its useful economic life. On disposal of a subsidiary any goodwill arising on acquisition that was previously written off to reserves, or that has not been amortised through the profit and loss account, is taken into account in determining the profit or loss on sale.

d) **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.

1. accounting policies (continued)

e) **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 and on maintaining the operating capability of the network, in accordance with defined standards of service, is treated as an addition and included at cost after deducting grants and contributions. The depreciation charge for infrastructure assets is the estimated average level of expenditure required to maintain the operating capability of the network which is based on the company's independently-certified 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.

f) **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 as, while a provision is made for depreciation of infrastructure assets, these 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 15. Revenue grants and contributions are credited to the profit and loss account in the year to which they apply.

g) **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.

h) **investments**

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

i) **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.

j) **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.

k) **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.

l) **research and development**

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

m) **deferred taxation**

Tax deferred as a result of timing differences is provided for only 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.

n) **financial instruments**

The principal derivative instruments utilised by the group are currency and interest rate swaps which are valued at cost. These instruments are used for hedging purposes in line with the group's risk management policy and no trading in financial instruments is undertaken.

Interest differentials are taken to net interest payable in the profit and loss account, and premiums and fees are amortised at a constant rate over the life of the underlying instrument.

The principal amounts under currency swaps are re-valued at closing rates of exchange and included in the sterling value of loans.

o) **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.

2. segmental analysis	Turnover 1999 £m	Turnover Restated 1998 £m	Profit before interest[a] 1999 £m	Profit before interest[a] Restated 1998 £m	Net operating assets[b] 1999 £m	Net operating assets[b] Restated 1998 £m
By class of business						
Water supply and wastewater services	749.5	727.7	329.2	364.6	3,108.5	2,886.3
International[c]	104.9	138.9	(5.6)	(7.0)	(4.9)	(2.4)
UK Commercial[d]	29.4	18.2	3.9	1.7	29.7	13.9
Other	–	–	0.2	(0.1)	2.8	3.3
Less intersegment trading[e]	(45.8)	(28.0)	(1.9)	(0.8)	–	–
	838.0	856.8	325.8	358.4	3,136.1	2,901.1
Total						
– Group	829.2	850.1	327.8	359.3	3,134.4	2,899.4
– Joint ventures and associates[f]	8.8	6.7	(2.0)	(0.9)	1.7	1.7
By geographical origin						
United Kingdom	775.4	776.2	325.0	363.6	3,149.5	2,882.0
Europe	42.4	37.4	0.9	(2.8)	(7.9)	4.5
Rest of world	20.2	43.2	(0.1)	(2.4)	(5.5)	14.6
	838.0	856.8	325.8	358.4	3,136.1	2,901.1
Total						
– Group	829.2	850.1	327.8	359.3	3,134.4	2,899.4
– Joint ventures and associates	8.8	6.7	(2.0)	(0.9)	1.7	1.7
By geographical destination						
United Kingdom	774.5	768.7				
Europe	38.7	35.9				
Rest of world	24.8	52.2				
	838.0	856.8				
Total						
– Group	829.2	850.1				
– Joint ventures and associates	8.8	6.7				

(a) Profit before interest in 1999 for the water supply and wastewater segment is stated after exceptional charges of £36.2 million and non-operating exceptional profits of £3.3 million (1998 – £6.0 million). The International segment includes non-operating exceptional profits of £2.2 million (1998 – £0.4 million).

(b) Net operating assets are shown before the deduction of net debt, dividends payable, Corporation Tax and Advance Corporation Tax of £1,479.5 million (1998 – £1,318.6 million).

(c) The acquisition of VAKJC during the year described in note 17 relates to the International segment. This business contributed £4.2 million to turnover, £0.2 million to operating profit and £2.8 million to net operating assets.

(d) UK Commercial was previously reported within other activities but is now regarded as a separate business segment.

(e) Intersegment trading relates principally to the International business £25.7 million, (1998–£14.6 million) turnover and £0.7 million (1998–£0.3 million) profit before interest and UK commercial businesses £18.5 million (1998–£11.6 million) turnover.

(f) The joint venture and associates results are solely within the International segment.

3. operating costs	Before operating exceptional items £m	Operating exceptional items £m	1999 Total £m	1998 Total £m
Depreciation of tangible fixed assets	130.3	1.4	131.7	124.8
Amortisation of deferred grants and contributions	(5.3)	–	(5.3)	(5.0)
Depreciation net of amortisation of grants and contributions	125.0	1.4	126.4	119.8
Other operating costs:				
Raw materials and consumables	82.0	–	82.0	94.8
Other external charges	221.2	27.0	248.2	212.7
Staff costs (see note 12)	119.0	8.0	127.0	116.1
Change in stocks of finished goods and work in progress	(1.7)	–	(1.7)	2.8
Own work capitalised	(74.2)	–	(74.2)	(49.7)
	346.3	35.0	381.3	376.7
Dividends receivable from investments	(0.5)	–	(0.5)	(0.4)
Profit on sale of fixed assets	(0.8)	–	(0.8)	(2.0)
Provision for diminution in value of investments	(1.5)	–	(1.5)	3.1
Contribution to Anglian Water Trust fund	2.0	–	2.0	–
Total other operating costs	345.5	35.0	380.5	377.4
Total operating costs	470.5	36.4	506.9	497.2

Operating costs include £4.0 million (£1.1 million staff costs and £2.9 million other external charges) relating to VAKJC, acquired in February 1999.

4. exceptional operating items	1999 £m	1998 £m
Restructuring costs	18.9	–
Year 2000 costs	17.5	–
	36.4	–
Taxation credit thereon	2.1	–

The restructuring costs comprise £15.0 million for reorganisation of the Engineering function to create a Centre of Excellence and £3.9 million for senior management reorganisation. £1.4 million of the engineering charge comprises accelerated depreciation of fixed assets.

5. profit on disposal of businesses

The profit on disposal arises from the sale of Fluid Systems to Koch Membrane Systems Inc. on 26 June 1998. Further details are provided in the notes to the cash flow statement. The profit on sale is derived as follows:

	1999 £m	1998 £m
Gain on disposal	18.4	0.6
Write back of goodwill previously eliminated against reserves	(16.2)	(0.2)
Profit on disposal	2.2	0.4

There is no tax charge associated with this profit. The disposed business contributed nil to the profit of the group for the year.

The disposals in 1998 were of two subsidiaries, Aquafine Engineering Services Ltd and Purac Engineering Inc.

6. profit on sale of fixed assets	1999 £m	1998 £m
Consideration	3.4	12.8
Net book value	(0.1)	(6.8)
Profit on disposal	3.3	6.0

The profits arise in relation to the group's programme for disposal of excess properties. There is no tax charge associated with this profit.

7. operating profit	1999 £m	1998 £m
Operating profit is stated after charging/(crediting):		
Dividends receivable from investments	(0.5)	(0.4)
Hire of plant and machinery	1.6	1.5
Other operating lease costs	3.9	5.3
Research and development expenditure	5.2	5.6
Fees paid to auditors:		
– for audit work (including £0.1 million in respect of the company (1998– £0.1 million))	0.3	0.4
– for other work (including £0.1 million overseas (1998– £0.1 million))	1.0	0.3

Non audit fees paid to PricewaterhouseCoopers in 1999 included £0.1 million (1998– £0.3 million) paid to Price Waterhouse and nil (1998–nil) paid to Coopers & Lybrand prior to the date of appointment of PricewaterhouseCoopers.

8. interest payable (net)	1999 £m	1998 £m
Overdrafts and short-term borrowings	3.8	7.7
Other loans	91.3	77.6
Finance leases	14.4	9.2
	109.5	94.5
Interest receivable	(10.8)	(10.3)
	98.7	84.2

Interest payable on loans includes the indexation element of the Index Linked Loan Stock (see note 22).
The group's share of the joint venture's interest is less than £0.1 million.

9. taxation	1999 £m	1998 £m
Tax on profit on ordinary activities comprises:		
Corporation Tax at 31 per cent (1998 – 31 per cent)	44.3	8.9
Overseas taxation	0.2	–
Advance Corporation Tax		
– write back on take up of scrip dividend alternative	(9.6)	–
– previously written off but now recoverable	(31.5)	–
– non-recoverable Advance Corporation Tax	–	20.6
	3.4	29.5
Windfall tax on utilities	–	131.8
	3.4	161.3
Analysed as:		
– before exceptional items	5.5	29.5
– exceptional items	(2.1)	131.8
Total	3.4	161.3

The Corporation Tax charge for the year is less than the stated 31 per cent due to the availability of accelerated capital allowances for which no deferred taxation is provided (see note 25).
The exceptional tax charge for 1998 represented the liability for the windfall tax on utilities. This was payable in two equal instalments; 1 December 1997 and 1 December 1998.

10. dividends	1999 £m	1998 £m
Interim dividend 12.8p (1998–11.5p) per ordinary share	34.7	31.3
Proposed final dividend 30.2p (1998–27.5p) per ordinary share	82.1	74.6
Additional 1998 final dividend following exercise of warrants	1.9	–
Total dividend on ordinary shares	118.7	105.9
B share dividend – 1.51p per share (non equity)	0.2	–
	118.9	105.9

11 earnings per share

	1999	1998
Basic		
Profit for the financial year	£223.7m	£112.9m
Less: B share dividends	£(0.2)m	–
Earnings attributable to ordinary shareholders	£223.5m	£112.9m
Average number of shares in issue	275.8m	271.2m
Basic earnings per share	81.0p	41.6p
Basic (before exceptional items)		
Basic earnings per share	81.0p	41.6p
Exceptional items (after tax)	10.5p	46.3p
Basic earnings per share (before exceptional items)	91.5p	87.9p
Fully diluted		
Earnings attributable to ordinary shareholders	£223.5m	£112.9m
Average number of shares in issue	275.8m	271.2m
Dilutive effect of options	1.4m	1.7m
Dilutive effect of warrants	0.6m	5.2m
Average number of shares outstanding	277.8m	278.1m
Fully diluted earnings per share	80.5p	40.6p

Basic earnings per share before exceptional items is disclosed as the directors consider it to be an appropriate reflection of the group's underlying earnings performance.

12 employee information

	Before operating exceptional items £m	operating exceptional items £m	1999 Total £m	1998 Total £m
Staff costs:				
Wages and salaries	104.5	3.1	107.6	105.2
Social security costs	10.3	–	10.3	9.9
Other pension costs (see note 29)	4.2	4.9	9.1	1.0
	119.0	8.0	127.0	116.1

Other pension costs are stated after crediting £6.4 million (1998 – £8.5 million) in respect of the amortisation of an actuarial surplus in the main UK pension scheme (see note 29).

Average number of full time equivalent persons employed:

	1999	Restated 1998
Water and wastewater services	4,305	4,140
International	739	808
UK Commercial	241	183
Other	12	11
	5,297	5,142

The numbers above include 488 full time equivalent persons employed outside the UK (1998 – 554).

Details of directors' emoluments and interests, which form part of these financial statements, are included in the remuneration report on pages 11 to 13.

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. Profit for the financial year dealt with in the accounts of the parent company is £378.3 million (1998 – loss £31.5 million).

14 intangible fixed assets

The goodwill arising in the year relates to the acquisition of Calleva Ltd as explained in note 17. The cost of goodwill at 31 March 1999 was £0.7 million (1998–nil), and the accumulated amortisation at 31 March 1999 was less than £0.1 million (1998–nil). This goodwill is being amortised over 20 years and the amortisation during the year was less than £0.1 million. There are no intangible assets in the company.

15 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 1998					
As previously reported	52.3	1,362.1	1,958.4	549.5	3,922.3
Adjustment for change in method of accounting	–	183.8	–	–	183.8
As restated	52.3	1,545.9	1,958.4	549.5	4,106.1
Exchange adjustments	–	–	–	0.1	0.1
Acquisition of subsidiary undertaking	4.5	–	–	1.8	6.3
Disposal of subsidiary undertakings	–	–	–	(8.0)	(8.0)
Additions	1.4	117.5	78.9	173.8	371.6
Disposals	–	(0.6)	(4.7)	(9.0)	(14.3)
At 31 March 1999	58.2	1,662.8	2,032.6	708.2	4,461.8
Grants and contributions					
At 31 March 1998	–	110.8	–	–	110.8
Additions	–	12.0	–	–	12.0
At 31 March 1999	–	122.8	–	–	122.8
Depreciation					
At 31 March 1998					
As previously reported	14.4	–	546.3	157.5	718.2
Adjustment for change in method of accounting	–	251.5	–	–	251.5
As restated	14.4	251.5	546.3	157.5	969.7
Disposal of subsidiary undertakings	–	–	–	(3.9)	(3.9)
Charge for the year	3.4	17.8	20.7	89.8	131.7
Disposals	(0.3)	(0.6)	(0.3)	(7.4)	(8.6)
At 31 March 1999	17.5	268.7	566.7	236.0	1,088.9
Net book amount					
At 31 March 1999	40.7	1,271.3	1,465.9	472.2	3,250.1
At 31 March 1998 as restated	37.9	1,183.6	1,412.1	392.0	3,025.6

Tangible fixed assets of the group at 31 March 1999 include £458.0 million of assets in the course of construction (1998 – £352.1 million) and also include land of £9.2 million (1998 – £8.8 million) which is not subject to depreciation. The group's interests in land and buildings are almost entirely freehold.

Following a change in accounting disclosure (as stated in note 1) infrastructure assets are now depreciated and the figures for prior years have been restated accordingly. Although a provision is made for depreciation of infrastructure assets, these assets have no finite economic life and hence no basis exists to amortise the related grants and contributions.

The net book value of the group's tangible fixed assets held under finance leases at 31 March 1999 was £172.6 million (1998 – £188.8 million). Depreciation charged on assets held under finance leases during the year ended 31 March 1999 amounted to £6.4 million (1998 – £6.9 million).

	Freehold land and buildings £m
The company	
Cost	
At 31 March 1998 and 31 March 1999	1.2
Depreciation	
At 31 March 1998 and 31 March 1999	0.2
Net book amount	
At 31 March 1998 and 31 March 1999	1.0

Capital 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 1999.

Amounts contracted for but not provided for in the financial statement at 31 March 1999 are £236.0 million (1998 – £265.1 million). There are no such commitments in the company.

16. investments

	Own shares £m	Joint ventures £m	Associated undertakings £m	Other investments £m	Total £m
The group					
Shares at cost or amount under equity method of accounting					
At 31 March 1998	–	1.6	2.1	4.2	7.9
Additions	–	2.4	0.3	0.1	2.8
Share of losses	–	(1.9)	(0.1)	–	(2.0)
Associate now consolidated*	–	–	(3.5)	–	(3.5)
Write back provision for diminution in value	–	–	1.5	–	1.5
At 31 March 1999	–	2.1	0.3	4.3	6.7
Loans					
At 31 March 1998	–	–	–	0.1	0.1
Additions	–	–	0.1	–	0.1
At 31 March 1999	–	–	0.1	0.1	0.2
Own shares					
At 31 March 1998 and 31 March 1999	0.4	–	–	–	0.4
Total					
At 31 March 1999	0.4	2.1	0.4	4.4	7.3
At 31 March 1998	0.4	1.6	2.1	4.3	8.4

*VAKJC became a subsidiary undertaking of Anglian Water Plc in February 1999.

Own Shares

Anglian Water LTIP Ltd, 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 4,000 shares in the company during the year and received 2,415 shares from a scrip dividend taking the total of shares held to 74,706 shares (1998–68,291 shares). Subsequently, a capital reorganisation reduced the shareholding to 69,725 shares with an original cost of £0.4 million; these had a market value of £0.5 million at 31 March 1998 (1998–£0.6 million).

Joint ventures and principal associated undertakings

Set out below is an analysis of the group's joint ventures and principal associated undertakings at 31 March 1999.

	Country of incorporation	Activity	Number of shares in issue	Nominal value of share capital in issue	% held	Class of share
Joint ventures						
American Anglian	USA	Wastewater treatment	Partnership	–	50	–
The principal associated undertakings are:						
Celtic Anglian	Ireland	Water and wastewater services	2	IR £2	50	Ordinary
All Asia Anglian	Philippines	Water and wastewater services	20,000,000	P20,000,000	40	Ordinary 1 peso
The Linkline Partnership	England	Advertising for mast site lettings	40,000	£40,000	50	Ordinary

These undertakings principally operate in their country of registration. The above investments are held by subsidiaries of Anglian Water Plc.

Other investments

Other investments include the group's 4.35 per cent investment in Aguas Argentinas, a consortium which operates the water and wastewater system in Buenos Aires, Argentina, as well as a 2.5 per cent holding in Cambridge Water PLC. The latter investment cost £0.4 million and had a market value of £0.5 million at 31 March 1999. A further investment of £1.8 million was made in April 1999 taking the holding to 9.9 per cent.

16 investments (continued)

	Own shares £m	Cost £m	Provisions £m	Net book amount £m
The company				
Shares				
At 31 March 1998	–	891.6	(5.8)	885.8
Provision for diminution	–	–	(8.6)	(8.6)
At 31 March 1999	–	891.6	(14.4)	877.2
Loans				
At 31 March 1998	–	653.7	(80.4)	573.3
Net movement during the year	–	213.3	–	213.3
At 31 March 1999	–	867.0	(80.4)	786.6
Own shares				
At 31 March 1998 and at 31 March 1999	0.4	–	–	0.4
Total				
At 31 March 1999	0.4	1,758.6	(94.8)	1,664.2
At 31 March 1998	0.4	1,545.3	(86.2)	1,459.5

The principal subsidiary undertakings of the group are listed in note 32.

17 acquisitions

In February and March 1999, the group acquired an additional 56.2 per cent of the issued share capital of VAKJC, a Czech Republic water and wastewater operator, for cash consideration of £4.1 million, including acquisition costs. This together with £3.5 million paid in cash in earlier years takes the total investment to £7.6 million, representing a 90.2 per cent holding. The acquisition was accounted for using the acquisition method and no goodwill arose.

In February 1999 the group acquired 100 per cent of Calleva Ltd, an internet vehicle leasing company for cash consideration of £0.5 million of which £0.3 million is deferred. The acquisition was accounted for using the acquisition method and the goodwill arising was £0.7 million. Amortisation during the year was less the £0.1 million.

An analysis of cumulative assets and liabilities acquired is shown below.

	Book value prior to acquisition £m	Revaluations £m	Accounting policy realignment £m	Provisional fair values £m
Fixed assets	4.3	2.0	–	6.3
Stocks	0.6	–	(0.1)	0.5
Debtors	4.8	–	(0.1)	4.7
Cash at bank	0.9	–	–	0.9
Creditors	(4.1)	–	–	(4.1)
	6.5	2.0	(0.2)	8.3
Less minority interest share of net assets acquired				(0.9)
				7.4

Fair values attributed to land and buildings were based on independent valuations on the basis of their open market value on an existing use basis. Adjustments were made to align accounting policies principally affecting stocks and debtors provisions. The fair values of the net liabilities acquired on the acquisition of Calleva Ltd have been provisionally estimated in advance of finalisation of the completion accounts.

In its last financial year to 31 December 1998, VAKJC made a profit after tax and minority interests of £0.3 million on turnover of £19.3 million.

In the last full financial year to 31 March 1998, Calleva Ltd made a loss of less than £0.1 million on turnover of £1.4 million.

In the prior year the company acquired 100 per cent of the issued share capital of Hartlepool Water PLC.

18. stocks

	Group	
	1999 £m	1998 £m
Raw materials and consumables	4.4	5.9
Work in progress	6.7	4.1
Finished goods	0.6	3.0
	11.7	13.0

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

19. debtors

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Amounts falling due within one year				
Trade debtors	162.3	145.6	–	–
Amounts recoverable on contracts	20.1	21.8	–	–
Amounts owed by subsidiary undertakings	–	–	273.3	1.5
Advance Corporation Tax recoverable	2.6	–	29.6	–
Other debtors	16.8	23.9	2.3	0.3
Prepayments and accrued income	8.9	5.8	0.2	1.9
	210.7	197.1	305.4	3.7
Amounts falling due after more than one year				
Trade debtors	–	0.9	–	–
Amounts recoverable on contracts	0.8	–	–	–
Prepaid pension contributions	13.3	10.9	–	–
	224.8	208.9	305.4	3.7

ACT recoverable by the company of £29.6 million will be recovered by offset against mainstream Corporation Tax liabilities of group companies.

20. Current asset investments

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Money market investments	50.0	–	50.0	–

Investments all mature within twelve months. The currency and interest rate composition of the group's investments is included in note 22.

21. creditors: amounts falling due within one year

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Bank overdrafts	6.4	42.5	–	–
Current portion of long-term loans	47.1	80.6	0.9	69.1
Obligations under finance leases	12.3	9.5	–	–
Short-term borrowings	65.8	132.6	0.9	69.1
Trade creditors	117.5	114.3	–	–
Payments on account in excess of contract value	20.3	22.9	–	–
Receipts in advance	48.2	48.1	–	0.4
Amounts owed to subsidiary undertakings	–	–	–	7.2
Advance Corporation Tax	0.9	26.5	–	26.5
Corporation tax and windfall tax	14.2	68.9	2.3	68.9
Other taxation and social security	3.4	4.4	0.7	0.7
Accruals and deferred income	45.9	40.0	22.2	13.7
Proposed dividends	117.0	74.6	117.0	74.6
Other creditors	367.4	399.7	142.2	192.0

22 loans, other borrowings and financial instruments

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Loans and other borrowings				
Repayable wholly after five years				
5⅛% Index Linked Loan Stock 2008 (a)	137.5	132.9	137.5	132.9
12% Fixed Rate Bonds 2014	100.0	100.0	100.0	100.0
European Investment Bank 2005 (Interest at 8.2%)	60.0	60.0	–	–
US$122m Private Placements 2006	79.1	79.1	75.3	72.6
8¼% Fixed Rate Bonds 2006	149.2	149.1	149.2	149.1
6.625% Fixed Bond £200m 2023	196.4	–	196.4	–
6.375% Fixed Bond £200m 2029	198.5	–	198.5	–
US$166m Private Placements 2012	98.4	98.4	98.4	98.4
	1,019.1	619.5	955.3	553.0
Repayable by instalments, any of which is due for repayment after five years				
European Investment Bank 2005 (Interest at 8.5%)	35.0	40.0	–	–
European Investment Bank 2007 (Interest at 7.38%)	7.2	8.2	–	–
European Investment Bank 2007 (Interest at 9.9%)	24.0	27.0	–	–
US$10 million Private Placement (Interest at 6.71%)	4.7	5.1	4.7	5.1
Finance leases	221.5	204.5	–	–
Other borrowings (b)	23.2	22.4	–	–
	315.6	307.2	4.7	5.1
Repayable wholly within five years				
European Investment Bank 1999 (Interest at LIBOR minus 0.2%)	25.0	25.0	–	–
European Investment Bank 2001 (Interest at LIBOR minus 0.15%)	50.0	50.0	–	–
European Investment Bank 2002 (Interest at 7.99%)	60.0	60.0	–	–
European Investment Bank 2003 (Interest at 5.56%)	10.0	10.0	–	–
European Investment Bank 2004 (Interest at 11.5%)	10.9	12.1	–	–
6½% Fixed Rate Bonds 1998	–	64.6	–	64.6
Hartlepool Water loan notes 2002 (Interest at LIBOR minus 1.0%)	2.8	3.1	2.8	3.1
Other loans (b)	1.7	9.0	0.3	3.9
	160.4	233.8	3.1	71.6
Total loans and other borrowings	1,495.1	1,160.5	963.1	629.7
Less amounts included in creditors falling due within one year	(59.4)	(90.1)	(0.9)	(69.1)
Loans and other borrowings falling due after more than one year	1,435.7	1,070.4	962.2	560.6

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 £4.6 million (1998 – £4.3 million) has been taken to the profit and loss account as part of interest payable.

b) of the unspecified loans and other borrowings, £20.1 million (1998 – £20.9 million) are at fixed rates and the remainder are at variable rates. Loans and other borrowings include £0.9 million (1998 – £ 1.0 million) secured on the revenues of a subsidiary undertaking.

financial instruments disclosures

The group's policies on management of financial risk are disclosed in the operating and financial review in the sections from 'management of financial risk' to 'foreign currency' on pages 3 to 5. These disclosures form part of this note.

Short-term debtors and creditors have been excluded from this note except for the comments on currency exposures to the financial statements.

22 loans, other borrowings and financial instruments (continued)

maturity analysis of financial liabilities

	Group	
	1999 £m	1998 £m
Less than one year	65.8	132.6
Between one and two years	34.4	51.8
Between two and five years	207.2	176.5
After five years	1,197.5	847.8
	1,504.9	1,208.7

Included above are amounts due under finance leases of £22.8 million (1998 – £9.5 million) payable within one year, £18.1 million (1998 – £8.2 million) payable within one to two years. £46.6 million (1998 – £27.0 million) payable between two and five years and £134.0 million (1998 – £159.8 million) payable after five years.

The group's non equity B shares represent a financial liability of £6.0 million, the maturity of which is dependent on the timing of any future offer for repurchase. This liability is not included in the table above.

The above maturity profile is determined by reference to the fixed dates on which the liability falls due.

currency exposures

The group has no material unhedged monetary assets and liabilities denominated in a currency different from the functional currency of the particular operations.

fair value of financial assets and financial liabilities

The fair value of the group's financial instruments at 31 March was:

	1999		1998	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Cash and deposits	101.4	101.4	54.4	54.4
Current asset investments	50.0	50.0	–	–
Short-term borrowings	(65.8)	(65.8)	(132.6)	(132.6)
Long-term borrowings	(1,436.3)	(1,709.0)	(1,076.2)	(1,241.0)
Currency and interest rate swaps	0.6	(15.4)	5.8	(14.2)
	(1,350.1)	(1,638.8)	(1,148.6)	(1,333.4)
Other financial liabilities	(3.4)	(3.4)	(5.7)	(5.7)
Non equity B shares	(6.0)	(6.0)	–	–

The fair value of loans and other borrowings falling due after more than one year represents the cost which the group would incur if it elected to repay these borrowings before their maturity dates, calculated by discounting future cash flows at prevailing rates.

The group has entered into swap arrangements which eliminate the risk of currency fluctuations in relation to the US$122 million Private Placements 2006 and the US$166 million Private Placements 2012. In addition, through interest rate swaps, £59.8 million of these borrowings are effectively at a fixed interest rate of 8.4 per cent, £92.9 million at a fixed rate of 7.5 per cent, £19.3 million at a floating rate of three month LIBOR + 0.39 per cent and £5.5 million at a floating rate of six month LIBOR + 0.29 per cent. Interest is charged to the profit and loss account based on the contracted interest rates. To determine the fair value of interest rate swaps for inclusion in the above table, a calculation was made of the net gain or loss which would have arisen if these contracts had been terminated on 31 March 1999. The value at that date was determined by market interest rates, which fluctuate over time.

The fair value of the group's B shares and other financial liabilities have been estimated as not materially different from the book value.

£2.0 million of the unrecognised losses in respect of interest rate swaps at 31 March 1998 of £17.7 million are included in the profit and loss account in 1999. Of the £15.7 million unrecognised losses at 31 March 1999, £2.0 million is expected to be included in the profit and loss account in the year 2000 and the balance in future years. £3.2 million of the deferred gains in respect of currency swaps at 31 March 1998 of £3.5 million are included in the profit and loss account in 1999. Of the £0.3 million deferred gains at 31 March 1999, £nil is expected to be included in the profit and loss account in the year 2000 and the balance in future years.

At 31 March 1999 and 31 March 1998, gains and losses on forward exchange contracts taken out as hedges of sales and purchase transactions were not material.

22. loans, other borrowings and financial instruments (continued)

currency and interest rate analysis of net financial assets/(liabilities) at 31 March 1999

	Total £m	Floating rate £m	Fixed rate £m	Financial assets/ (liabilities) on which no interest is paid	Average interest rate*	Average years to maturity*
Sterling	(1,494.1)	(307.1)	(1,187.0)	–	8.3%	10.7
US dollar	(4.7)	–	(4.7)	–	6.7%	7.6
Rest of world	(2.7)	(2.7)	–	–		
Total borrowings	(1,501.5)	(309.8)	(1,191.7)	–		
Sterling	140.3	138.8	–	1.5		
Eurozone	5.1	5.1	–	–		
Rest of world	6.0	6.0	–	–		
Cash, deposits and current asset investments	151.4	149.9	–	1.5		
Net debt	(1,350.1)	(159.9)	(1,191.7)	1.5		
Other financial liabilities	(3.4)	–	–	(3.4)		1.0
Non equity B shares	(6.0)	(6.0)	–	–		
Net financial liabilities	(1,359.5)	(165.9)	(1,191.7)	(1.9)		

* On fixed interest loans, assets/(liabilities) on which no interest is paid.

The above table reflects the net position after swap arrangements. Fixed rate loans are those for which the interest rate was fixed for more than 12 months at 31 March 1999.

Floating rate cash and investments earn interest based on LIBID for the relevant currency.

borrowing facilities

The group has the following unused committed borrowing facilities:

	1999 £m	1998 £m
Expiring within one year	150.0	50.0
Expiring within one and two years	–	–
Expiring in more than two years	205.0	205.0
	355.0	255.0

Of the facilities expiring within one year, £50.0 million (1998–£50 million) is subject to annual review.

23. other creditors falling due after more than one year

	Group 1999 £m	Group 1998 £m
Trade creditors	3.4	5.7
Receipts in advance	–	3.6
Accruals and deferred income	–	0.4
Deferred grants and contributions	91.8	97.0
	95.2	106.7

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

24. provisions for liabilities and charges

	Infrastructure renewals £m	Restructuring costs £m	Contract and other provisions £m	Total £m
The group				
At 31 March 1998				
As previously reported	67.7	14.4	4.0	86.1
Adjustment for change in method of accounting	(67.7)	–	–	(67.7)
As restated	–	14.4	4.0	18.4
Charge for the year	–	17.5	3.7	21.2
Utilised in the year	–	(11.6)	(2.7)	(14.3)
At 31 March 1999	–	20.3	5.0	25.3

Due to a change in accounting disclosure, the net underspend on infrastructure renewals is no longer shown as a provision. Instead, infrastructure renewals expenditure is recorded as fixed asset additions and the infrastructure renewals charge is disclosed as depreciation as explained in note 1.

The provision for restructuring costs charged in the year relates to redundancy and other costs arising from a review of the Engineering function announced in September 1998 when the formal plan was announced to the employees at the locations concerned. The announcement anticipated that the plan would be largely implemented by December 1999. Accordingly this will result in cash outflows primarily in 1999/00. Of the £20.3 million (1998 – £14.4 million) balance of restructuring costs, £7.9 million (1998 – £10.3 million) relates to pension enhancements. These pension payments, as indicated in the original formal plans announced to employees, are expected to be paid over several accounting periods.

The contract and other provisions relate to warranty provisions under contracts representing the best estimate of amounts payable principally in the next accounting period.

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

25. deferred taxation

In accordance with the group's accounting policy there is no requirement for a provision for deferred taxation at 31 March 1999. The group's full potential deferred taxation liability, calculated under the liability method at a tax rate of 30 per cent (1998–31 per cent), is:

	1999 £m	Restated 1998 £m
Accelerated capital allowances	577.9	539.1
Other timing differences	(15.9)	(7.9)
Available tax losses	(6.3)	(6.9)
Advance Corporation Tax	(157.9)	(198.5)
	397.8	325.8

As stated in note 1, infrastructure assets have been depreciated for the first time. As a result accelerated capital allowances relating to infrastructure assets have been included in the amounts shown above and the comparatives for 1998 has been restated to include an additional £295.7 million of accelerated capital allowances.

26. commitments under operating leases

At 31 March 1999 the group had commitments to make payments during the next 12 months under non-cancellable operating leases which expire as follows:

	Land and buildings £m	Other £m
The group		
Within one year	0.1	0.3
Between one and five years	0.7	0.8
After five years	2.4	–
	3.2	1.1

There were no such commitments by the company.

27 share capital of Anglian Water Plc	1999 £m	1998 £m
Authorised		
400.0 million ordinary shares of £1 each	–	400.0
503.4 million ordinary shares of 47 1/7 pence each	237.3	–
10.7 million B shares of 56 pence each	6.0	–
Allotted Issued & Fully Paid		
271.7 million ordinary shares of £1 each	–	271.7
271.7 million ordinary shares of 47 1/7 pence each	128.1	–
10.7 million B shares of 56 pence each	6.0	–

Between 1 April and 25 September 1998 the company's issued share capital increased by: 4,721,431 ordinary shares issued to shareholders who elected for the enhanced scrip dividend alternative; 13,554,090 ordinary shares as a result of the exercise of Warrants at a price of £4.95 giving rise to a share premium of £53.5 million; 493,580 ordinary shares as a result of the exercise of options under the sharesave scheme at an average price of £3.50 giving rise to a share premium of £1.2 million; 21,995 ordinary shares as a result of the exercise of options under the executive share option scheme at an average price of £5.12 giving rise to a share premium of £0.1 million.

On 28 September 1998 each existing ordinary share with a nominal value of £1 was split into one ordinary share with a nominal value of 44 pence and one B share with a nominal value of 56 pence. In order to facilitate earnings and dividend per share comparability, the ordinary share capital was then sub-divided and consolidated on the basis of 14 new ordinary shares for every 15 ordinary shares held.

As a result of the capital reorganisation, the authorised and issued share capital on 28 September 1998 was:

	Authorised		Issued	
	Number	£m	Number	£m
New ordinary shares of 47 1/7 pence	503,405,289	237.3	271,133,941	127.8
B shares of 56 pence	290,500,651	162.7	290,500,651	162.7

The number and exercise price of options under the share option schemes and the number of shares allocated under the Anglian Water long-term incentive scheme were unchanged following the implementation of the capital reorganisation.

Shareholders were given the opportunity by the company for their B shares of 56 pence each nominal value to be repurchased. As a result of two repurchase offers, 279, 827,168 B shares were repurchased for cash at a nominal value of 56 pence each (£156.7 million). 10,673,483 B shares with a nominal value of 56 pence each (£6.0 million in value) remain in issue.

Subsequent to the capital reorganisation, a further 623,172 options were exercised under the sharesave scheme at an average price of £5.70 giving rise to a share premium of £3.2 million.

The holders of B shares are entitled in priority to any distribution to ordinary shareholders and before profits are carried to reserves to be paid a non-cumulative preferential dividend per share at a rate of 75 per cent of six month LIBOR six monthly in arrears. In the event of a winding up of the company, repayment is made to the holders of these shares only of the nominal capital paid up. The holders of B shares are not entitled to vote at any general meeting except if a resolution to wind up the company is to be considered.

At 31 March 1999 the total number of ordinary shares under option was 3,808,156.

Further details are provided in the directors' report.

28. movement in total shareholders' funds

	Ordinary share capital £m	Class B preference shares £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	1999 Total £m	1998 Total £m
The group								
At beginning of year	271.7	–	17.5	29.7	8.2	1,255.4	1,582.5	1,580.0
Total recognised gains relating to the year	–	–	–	–	–	223.6	223.6	112.9
Dividends	–	–	–	–	–	(118.9)	(118.9)	(105.9)
Goodwill written back on disposal of subsidiaries	–	–	–	–	–	16.2	16.2	0.2
Goodwill eliminated on acquisition	–	–	–	–	–	–	–	(11.2)
New share capital subscribed (see note 27)	14.4	–	66.2	–	(8.2)	–	72.4	6.5
New shares issued in relation to scrip dividend	4.7	–	(4.7)	–	–	38.5	38.5	–
Capital restructuring	(162.7)	162.7	–	–	–	–	–	–
Share buyback	–	(156.7)	–	156.7	–	(158.6)	(158.6)	–
At end of year	128.1	6.0	79.0	186.4	–	1,256.2	1,655.7	1,582.5
The company								
At beginning of year	271.7	–	17.5	29.7	8.2	391.2	718.3	849.3
Total recognised gains and losses relating to the year	–	–	–	–	–	378.3	378.3	(31.6)
Dividends	–	–	–	–	–	(118.9)	(118.9)	(105.9)
New share capital subscribed (see note 27)	14.4	–	66.2	–	(8.2)	–	72.4	6.5
New shares issued in relation to scrip dividend	4.7	–	(4.7)	–	–	38.5	38.5	–
Capital restructuring	(162.7)	162.7	–	–	–	–	–	–
Share buyback	–	(156.7)	–	156.7	–	(158.6)	(158.6)	–
At end of year	128.1	6.0	79.0	186.4	–	530.5	930.0	718.3

Cumulative goodwill not yet taken to the profit and loss account amounts to £57.7 million (1998 – £73.2 million) of which £57.0 million (1998 – £73.2 million) has been eliminated directly against reserves as a matter of accounting policy.

The movement on other reserves represents the premium on sale of the warrants exercised during the year transferred to the share premium account.

notes to the financial statements

29. pension commitments

Pension arrangements for the majority of the group's UK employees are of the defined benefit type, through Anglian Water Pension Scheme (AWPS) which now includes Anglian Water Mirror Image Pension Scheme (AWMIS) following the merger of the two schemes on 1 May 1998. 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 next full actuarial valuation of the combined scheme will take place as at 31 March 1999.

The regular pension cost for the year ended 31 March 1999 was £10.6 million (1998 – £9.5 million) and included £0.1 million (1998 – £0.2 million) for overseas schemes. These costs were offset by a credit of £6.4 million (1998 – £8.5 million) in respect of the amortisation of actuarial surpluses in the AWMIS and AWPS schemes. The amortisation has been reduced in the current year following the adoption of an interim actuarial assessment reflecting a lower surplus in the merged scheme following an enhancement of benefits to members.

At 31 March 1999 there was a prepayment in respect of pensions of £13.3 million (1998 – £10.9 million).

30. contingent liabilities

The group and company have entered into a number of performance bonding and guarantee arrangements in the normal course of business. 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 £4.6 million (utilised), £27.3 million (unutilised) at 31 March 1999 (1998 – £13.8 million (utilised), £23.3 million (unutilised)).

31. related party transactions

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

32. principal group companies

The principal subsidiary undertakings at 31 March 1999 are shown below:

	Country of incorporation	Activities
Water and wastewater services		
Anglian Water Services Ltd*	England	Water and wastewater 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 Ltd	England	International water and wastewater business development services; holding company
AWI Holdings Ltd*	England	Holding company
AW Overseas Holdings Ltd	England	
Purac AB	Sweden	Contracting for water and wastewater treatment processes
Purac GmbH	Germany	
Anglian Water International Pty Ltd	Australia	
Purac Ltd	England	
Purac Water Spolka Z.o.o.	Poland	
VAKJC as	Czech Republic	Water and wastewater treatment
Anglian Water International (NZ) Ltd	New Zealand	Management and operation of wastewater projects
AW Ireland Ltd	Ireland	Management and operation of leakage reduction and wastewater projects
Kaldnes Miljoteknologi A/S	Norway	Manufacture of wastewater treatment media; contracting in wastewater treatment processes
UK Commercial		
Powermarque Ltd*	England	Transport leasing and fleet maintenance
Geodesys Ltd*	England	Asset management services
Anglian Water Infrastructure Ltd*	England	Provision of infrastructure services to developers
Alpheus Environmental Ltd	England	Wastewater treatment
Other		
Rutland Insurance Ltd*	Guernsey	Provides insurance to group companies

The group also owns a number of smaller and non-trading companies. All subsidiaries are 100 per cent owned by the group or the company with the exception of VAKJC which is 90.2 per cent owned. 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 Ltd and the Purac companies.

33. subsequent events

In December 1998 the Anglian Water group, in partnership with the Chilean utility company Enersis, was appointed to operate and acquire shares in ESVAL (the first privatised water and wastewater company in Chile). In April 1999 Anglian Water acquired a 28 per cent share in a holding company Aguas Puerto for cash consideration of £23.8 million. Aguas Puerto then, in turn acquired a 40.5 per cent stake in ESVAL.

In April and May 1999 shares were progressively purchased in Severomoravské vodovody a Kanalizace Ostrava a.s. (SMVAK), a water and wastewater company operating in North Moravia, Czech Republic. At 25 May 1999, 53.4 per cent of the issued share capital of SMVAK had been purchased for cash consideration of £32.0 million.

auditors' report

auditors' report to the shareholders of Anglian Water Plc

We have audited the financial statements on pages 16 to 39.

respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report, including as described on page 8 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 6 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the group's corporate governance procedures or its internal controls.

basis of audit opinion

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

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

opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 1999 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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT
25 May 1999

PRICEWATERHOUSECOOPERS

Profit and loss account	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m
Turnover					
Water supply and wastewater services	629.7	659.5	697.7	727.7	749.5
International	100.2	131.6	159.8	138.9	104.9
UK Commercial	–	–	6.9	18.2	29.4
Less intersegment trading	(9.8)	(15.2)	(22.2)	(28.0)	(45.8)
	720.1	775.9	842.2	856.8	838.0
Total					
–Group	720.1	775.7	837.1	850.1	829.2
–Joint ventures	–	0.2	5.1	6.7	8.8
Operating profit					
Water supply and wastewater services	262.8*	298.9	311.3*	358.6	325.9*
International	(6.3)	(5.7)	(24.9)§	(7.4)	(7.8)
UK Commercial	–	–	–	1.7	3.9
Other	(0.9)	0.5	–	(0.1)	0.2
Less intersegment trading	–	–	–	(0.8)	(1.9)
	255.6	293.7	286.4	352.0	320.3
(Loss)/profit on disposal of businesses	–	–	(8.2)	0.4	2.2
Profit on sale of fixed assets	3.2	1.2	–	6.0	3.3
Profit on ordinary activities before interest	258.8	294.9	278.2	358.4	325.8
Interest payable (net)	(42.7)	(56.3)	(70.2)	(84.2)	(98.7)
Profit on ordinary activities before taxation	216.1	238.6	208.0	274.2	227.1
Tax on profit on ordinary activities	(19.3)	(20.1)	(23.1)	(29.5)	(3.4)
Windfall tax on utilities	–	–	–	(131.8)	–
Profit on ordinary activities after taxation for the financial year	196.8	218.5	184.9	112.9	223.7
Dividend per ordinary share	26.0p	30.0p	34.5p	39.0p	43.0p
Earnings per ordinary share – basic	66.4p	78.1p	68.6p	41.6p	81.0p
Earnings per ordinary share before exceptional items	71.1p	78.1p	86.8p	87.9p	91.5p

Balance sheet	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m
Fixed assets‡	2,393.9	2,575.0	2,787.2	3,034.0	3,258.1
Net current liabilities†	(170.3)	(164.5)	(129.0)	(177.8)	(130.9)
Long-term liabilities	(76.8)	(88.3)	(103.7)	(106.7)	(95.2)
Provisions for liabilities and charges‡	(31.5)	(13.3)	(35.9)	(18.4)	(25.3)
Net borrowings	(584.7)	(831.8)	(938.6)	(1,148.6)	(1,350.1)
Capital employed	1,530.6	1,477.1	1,580.0	1,582.5	1,656.6

* After exceptional charges of £36.2 million in 1999, £22.0 million in 1997, and £14.0 million in 1995.

† Excluding cash and deposits and short-term borrowings.

§ After exceptional charges of £18.8 million in 1997.

‡ Following the change of method of accounting for infrastructure renewals during the year (described in note 1 to the financial statements), prior years' comparatives for fixed assets and provisions for liabilities and charges have been restated.

board of directors

Robin Gourlay BSc (60) chairman (1994 to date); deputy chairman (Feb 1994 to Sept 1994); non-executive director, Anglian Water Plc (Sept 1993 to Sept 1994); chairman, Rugby Group Plc (1996 to date); non-executive director, Astec Plc (1995 to 1999); non-executive director, Beazer Homes Plc (1994 to date); chief executive and managing director, BP Nutrition (1990 to 1994); managing director, BP Group Australia (1986 to 1990); board member, Petroleum Institute, Australia; director, Australian Administrative Staff College; chairman, Business in the Community, Victoria (1986 to 1990). (1, 5, 10)

Chris Mellor IPFA (50) group managing director (1998 to date); group finance director, Anglian Water Plc (1990 to 1998); head of finance and planning, Anglian Water Plc and Anglian Water Authority (1988 to 1990); director, East of England Investment Agency Ltd (1998 to date); trustee, Industry in Education (1998 to date). (1, 6)

Tony Eckford (50) managing director, Anglian Water International Ltd (1996 to date); managing director, Thames Water International (1994 to 1996); deputy chairman and chief executive officer (1993 to 1994), group managing director (1991 to 1993), AMEC Process & Energy Group Ltd; managing director, AMEC Offshore Ltd (1986 to 1993). (1)

Roy Pointer CEng (53) managing director, Anglian Water Services Ltd (1998 to date); director of Production, Anglian Water Services Ltd (1994 to 1998); director of Engineering, Anglian Water Services Ltd (1992 to 1994); divisional manager (North), Anglian Water Authority/Anglian Water Services Ltd (1988 to 1992). (1, 4)

Elliott Mannis B Comm, CA (37) group finance director, Anglian Water Plc (1998 to date); group financial controller, Aegis Group plc (1993 to 1998); chartered accountant, Price Waterhouse (1984 to 1993). (1)

Richard Jewson MA (54) non-executive deputy chairman (1994 to date); non-executive director, Anglian Water Plc (1991 to 1994); director and chairman, Meyer International Plc (1983 to 1993); chairman, (1996 to date), non-executive director (1982 to 1996), Eastern Counties Newspaper Group; 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 to 1995), chairman (1995 to date), Savills; non-executive director, Grafton Group Plc (1995 to date); chairman, Anglian Housing Association Group Ltd (1996 to date); chairman Octagon Health Care (1998 to date). (2, 3, 5, 7)

June de Moller (51) non-executive director, Anglian Water Plc (1992 to date); group managing director, (1993 to 1999), director, (1983 to 1993) Carlton Communications Plc; non-executive director, Riverside Mental Health Trust (1992 to 1996); member, Advisory Board for the Judge Institute, Cambridge (1996 to date); non-executive director, Lynx Group Plc (1999 to date); non-executive director, Cookson Group plc (1999 to date). (2, 3, 5, 8)

David Challen (56) non-executive director, Anglian Water Plc (1993 to date); director (1979 to 1997), chairman (1997), J Henry Schroder & Co. Ltd; member, Takeover Panel (1993 to 1994); member, Governing Body of Morley College (1993 to date); member, Advisory Committee on Business and the Environment (1991 to 1993); member, Financial Reporting Council (1995 to date); non-executive director, Thomson Travel Group Plc (1998 to date). (2, 3)

James Cronin SCMA (61) non-executive director, Anglian Water Plc (1996 to date); deputy chief executive officer, Alstom (1990 to date); director, GEC plc (1994 to 1998). (2, 3)

Sally O'Sullivan BA (49) non-executive director, Anglian Water Plc (1997 to date); non-executive director, London Transport (1995 to date); editor-in-chief, Good Housekeeping (1991 to 1996); editor-in-chief, Ideal Home and Home Interest Group, IPC Magazines (1996 to 1998); chief executive, Cabal Communications (1998 to date); member, Broadcasting Standards Commission (1994 to date). (3, 4)

Baroness Young of Old Scone MA, AHSM (51) non-executive director, Anglian Water Plc (1998 to date); chairman, English Nature (1998 to date); vice chairman, BBC (1998 to date); patron, Institute of Ecological and Environmental Management (1994 to date); vice president, Flora and Fauna International (1998 to date); trustee, Public Management Foundation (1998 to date); chief executive, RSPB (1991 to 1998); various posts in health services management (1971 to 1990). (2, 3, 4, 9)

Key

1 member of executive committee
2 member of audit committee
3 member of remuneration committee
4 member of environment committee
5 member of nominations committee
6 chairman of executive committee
7 chairman of audit committee
8 chairman of remuneration committee
9 chairman of environment committee
10 chairman of nominations committee

ordinary shares of 47¹/₇ pence each

Analysis of shareholdings	Number of holdings	%	Balance as at 31 March 1999	%
1-99	8,365	11.59	662,363	0.24
100-499	37,134	51.44	8,892,078	3.27
500-999	20,028	27.75	13,603,580	5.01
1,000-4,999	5,601	7.75	8,838,153	3.25
5,000-9,999	295	0.41	2,024,675	0.75
10,000-49,999	343	0.47	8,225,323	3.03
50,000-99,999	150	0.21	11,037,744	4.06
100,000-highest	271	0.38	218,453,580	80.39
	72,187	100	271,737,496	100

B shares of 56 pence each

Analysis of shareholdings	Number of holdings	%	Balance as at 31 March 1999	%
1-99	1,517	5.98	62,911	0.59
100-499	16,587	65.36	3,017,629	28.27
500-999	6,167	24.29	4,019,894	37.66
1,000-4,999	1,067	4.20	1,561,351	14.62
5,000-9,999	17	0.07	113,933	1.07
10,000-49,999	18	0.07	385,831	3.62
50,000-99,999	3	0.01	173,740	1.63
100,000-highest	4	0.02	1,338,194	12.54
	25,380	100	10,673,483	100

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 TSB Registrars. Shareholders requiring help or information about their shareholding may either write to The Registrar, Lloyds TSB Registrars, 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

shareholder information

advisers

merchant bank

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

auditors

PricewaterhouseCoopers, 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.
Kleinwort Benson Securities Ltd, PO Box 560, 20 Fenchurch Street, London EC3P 3DB.

registrars

Lloyds TSB Registrars, 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	21 June 1999
record date	25 June 1999
annual general meeting	28 July 1999
dividend payment	4 August 1999