

CORD

1998

responsive

Clean beaches

First UK water and sewerage company to achieve 100 per cent compliance with the EU Bathing Water Directive. Awarded 10 blue flags this year. Anglian Water has nine per cent of the nation's designated bathing waters but has 22 per cent of all blue flags.

2000

sustainable

Keeping the planet in balance

Anglian Water is one of the few FTSE 250 companies to have been selected by the National



EDX
COMPANIES HOUSE

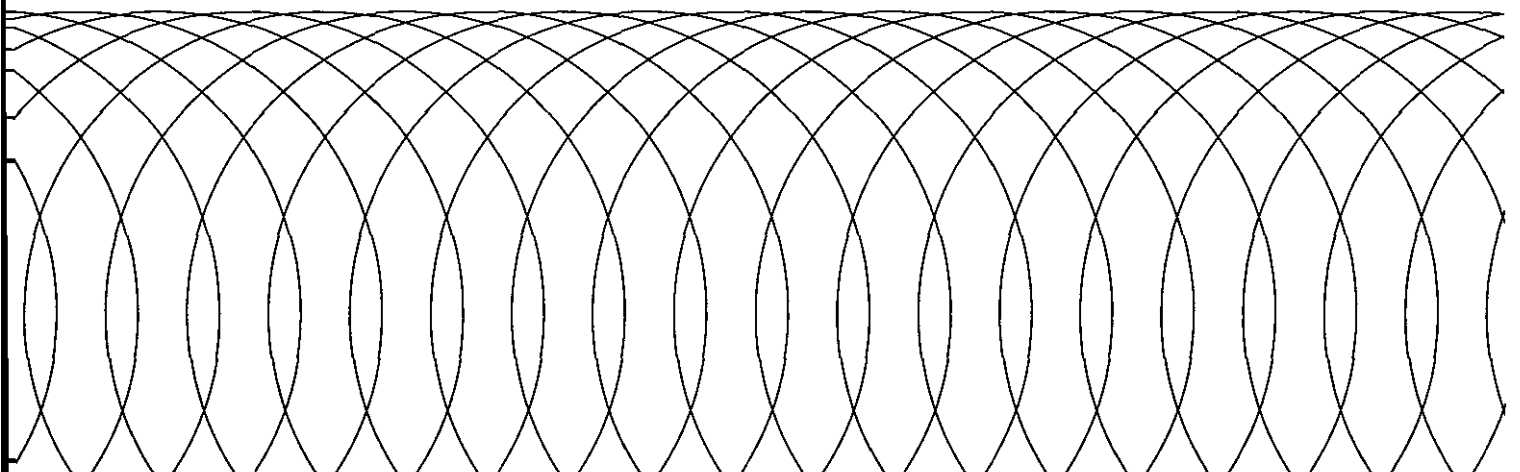
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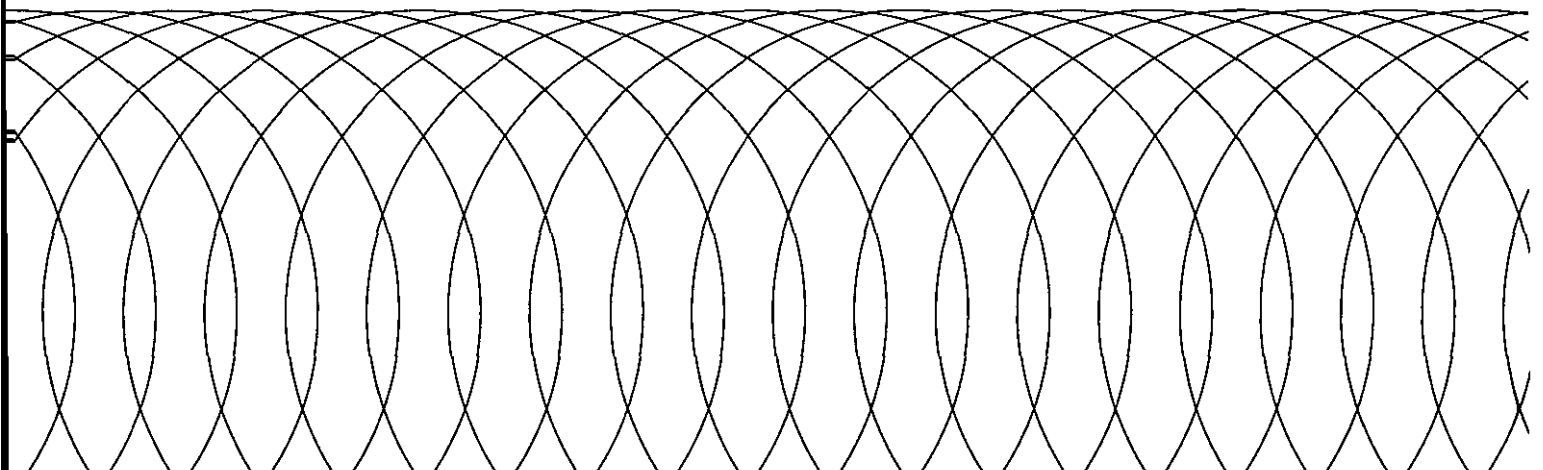
our vision

Following a major reorganisation of the group, we now have in place the operating structure we need to grow and succeed. Recognising the widening scope for the group and our aspirations to grow in areas outside the main regulated business, we propose a change of the company's name to awg plc. Longer term, our vision is to become a world leader in the water industry by 2007.



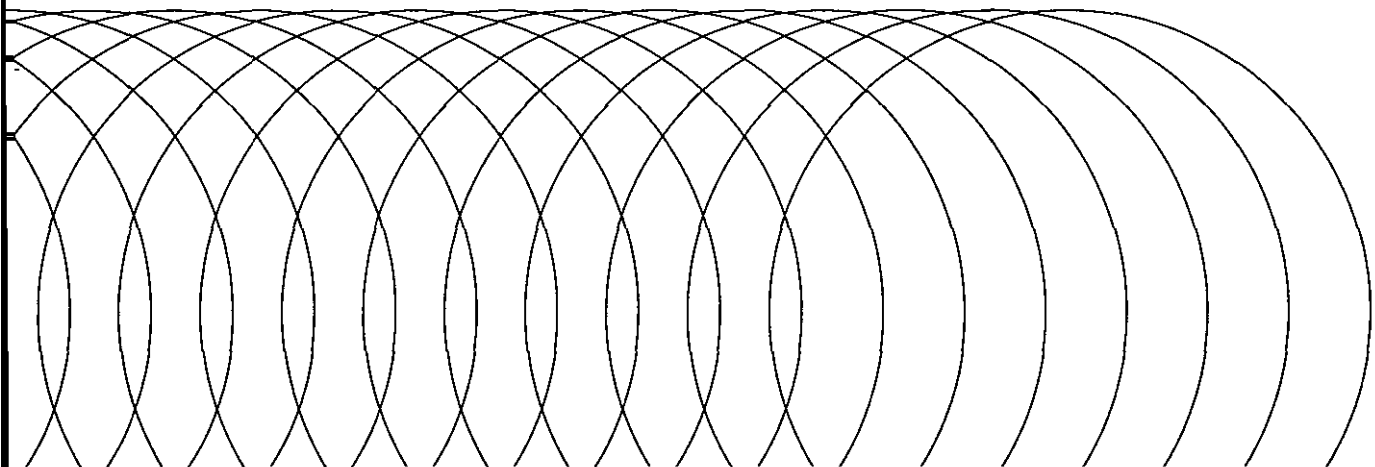
the importance of values

We have adopted a balanced and sustainable approach to setting corporate objectives integrating environmental, service and people development targets, and incorporating them into the overall financial targets for the group. The sense of ownership and accountability which these shared objectives foster among our people encourage all to contribute to the overall vision and values of the group.



achieving growth and success

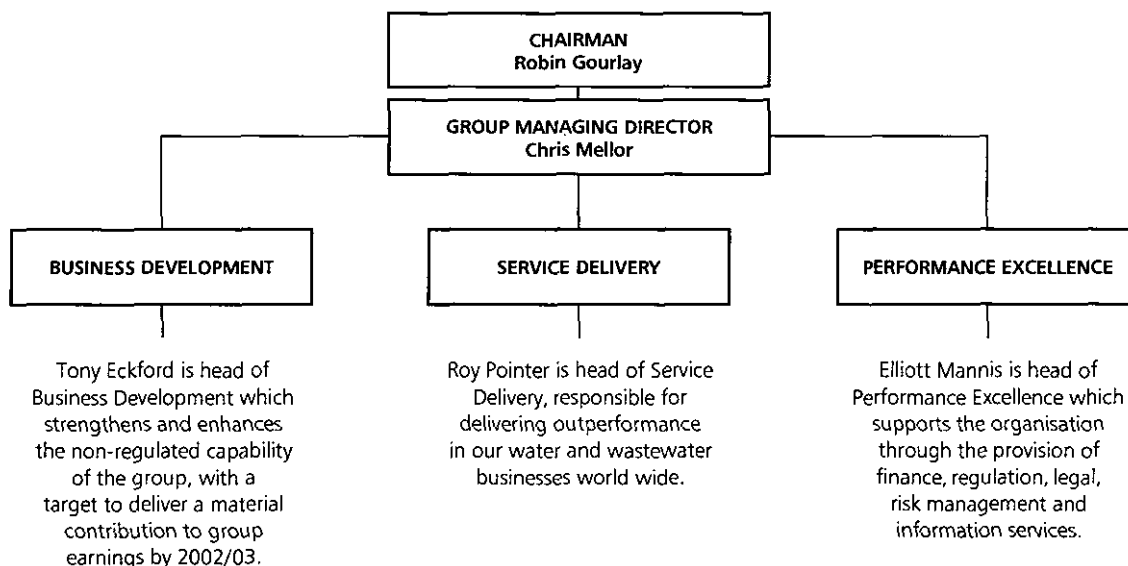
The group is well placed for success in a new and challenging regulatory environment in the UK. Our task now is to deliver outperformance in our UK regulated business and to achieve growth in all our worldwide operations.

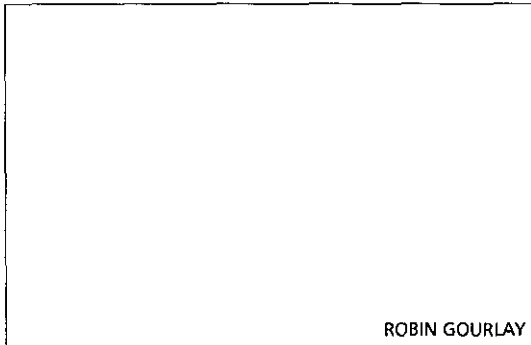


group structure 1 chairman's statement 2 financial highlights 4 group managing director's report 5 utilising our skills 6 growing our markets 10 constantly evolving solutions 14 board of directors 16 operating and financial review 18 corporate governance 22 statement of directors' responsibilities 24 remuneration report 25 directors' report 30 group profit and loss account 32 statement of total recognised gains and losses 32 balance sheets 33 group cash flow statement 34 notes to the group cash flow statement 35 notes to the financial statements 37 auditors' report 57 group financial history 58 shareholder information 59 corporate advisers 60

a structure to deliver

Our reorganisation, completed in March 2000, retains the strength derived from our public service traditions and focuses on the creation of a single integrated structure to remove unnecessary demarcations between our group operations.





The past year has been one of immense change for Anglian Water. Anticipating a tougher regulatory environment, we have completed a major reorganisation of the group to deliver a step-change in the efficiency of our UK regulated business and growth in non-regulated earnings.

Anglian Water customers have benefited from the efficiencies created during the past five years, with a reduction of £30 to the average bill in 2000. This continues the falling trend in average bills during the past five years. Looking ahead to our investment programme, we have agreed with our regulators a comprehensive £1.4 billion programme over five years to deliver enhanced quality and service throughout our region.

Our preparation for the next five years has not been without cost. We announced in October that, following a reduction in the numbers of jobs, 400 employees would be leaving during the next two years. This will be painful, but the platform we have created already will achieve our twin objectives of outperformance and growth.

1999/00 was nevertheless our best-ever year of operational performance. We met all our regulatory contract targets in the UK, a tremendous achievement during a period of much uncertainty. In particular, we regained our position as the leading company for leakage control in the UK, and moved from sixth to second in the regulator's league of customer service levels.

The continued good performance of the UK regulated business has been critical to building Anglian Water's brand and reputation in the UK. In the highly-competitive global water market, where factors such as service and environmental performance are becoming increasingly important, top performance at home is a vital criterion in winning contracts.

£5.3
million
non-regulated
operating
profit

Our business development team won major new contracts in our key target markets of South America, Europe and Asia Pacific. Our UK facilities management business has shown strong growth, doubling turnover and profit again last year.

Not only have we achieved this year's primary objective for our non-regulated businesses – moving our total non-regulated business into profit – but we are firmly on track to create long-term value for shareholders from these activities with a target to deliver a material contribution to group earnings by 2002/03.

The group's turnover was £872.9 million, an increase of 5.3 per cent on the previous year (1999 – £829.2 million), reflecting a substantial increase in non-regulated business turnover. Turnover was slightly down in water supply and wastewater services, by 1.9 per cent, but this has been more than offset by a 21.2 per cent increase in international turnover, and a 109.2 per cent increase in turnover for the facilities management companies.

Group operating costs before exceptional items were £528.1 million (1999 – £470.5 million). Operating costs, excluding depreciation, in water supply and wastewater services were £271.6 million (1999 – £269.1 million), an increase of just under 1 per cent in nominal terms as a result of inflation and new quality obligations, which were offset by £13.7 million of efficiency savings. Costs in the non-regulated businesses increased by £37.2 million reflecting the increased scale of operations. Earnings per share, excluding exceptional items, were 69.5p (1999 – 91.5p), reflecting the increased tax charge.

In order to begin to realise value from Anglian Water's £158 million surplus Advance Corporation Tax (ACT), at the interim results we announced an issue of redeemable shares. The board has subsequently announced new proposals which will enable the group to continue to recover the surplus ACT by making further issues of redeemable shares. The board proposes to hold the full year payment to shareholders at 43.0p, which is 1.6 times covered by earnings before exceptional items.

**21 per cent increase
in international
business turnover**

As this will be through an issue of redeemable shares, and will be later than the date expected for a cash payment, shareholders will be compensated for effects of the delay by receiving a one-off enhancement. The exact amount will be determined once the payment date is confirmed.

These future issues of redeemable shares will require greater capital reserves than are available within the existing group. The creation of a new holding company will create sufficient reserves to enable this programme to continue with a view to recovering the full value of the surplus ACT.

At a time of major change in the water sector, we are poised to take advantage of the opportunities brought about by a new and competitive environment. Our goal is straightforward: outperformance in the UK regulated business and growth in our non-regulated business, and our culture is to be competitive, responsible, responsive and friendly.

In order to reflect the increased scale of our operations outside the East Anglian region, and in recognition of the fact that most of the group's growth will inevitably take place in new areas, we propose to rename the company awg plc. The new identity features for the first time in this year's annual report.

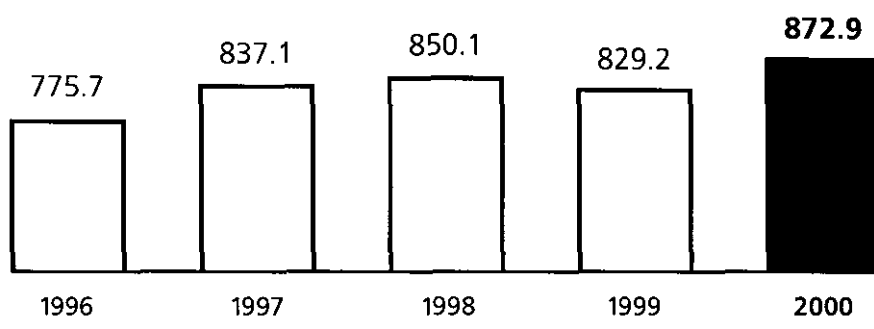
During the year June de Moller retired from the board. Her advice and support during her tenure have been most valuable, and we wish her well in the future. I am pleased to welcome two non-executive directors to the board; Eryl Morris, chairman of Airinmar Ltd and of Safetynet Group Ltd, and Jim McKenna, executive director of Logica plc. Both bring extensive industrial and commercial experience to the board.

The success of the group is due entirely to the dedication and efforts of our employees. Under the leadership of the executive team, they have performed extremely well and I pay tribute to them all.

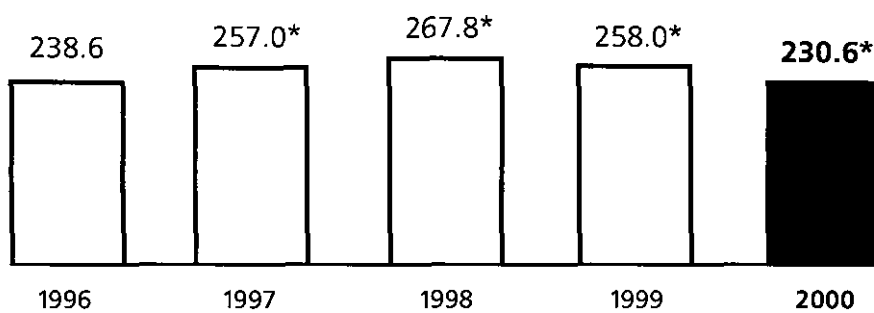
Robin Gourlay chairman

31 May 2000

financial highlights

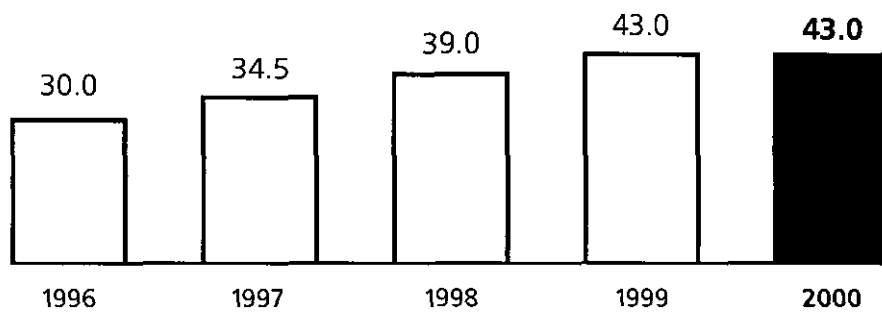


TURNOVER £m



* before exceptional items

PROFIT BEFORE TAX £m



PAYMENT TO SHAREHOLDERS Pence



an evolution

Anglian Water Plc
Annual Report and Accounts 2000



utilising our skills

6 Anglian Water is a consistently innovative company with a track record of success and growth since privatisation in 1989.

OUR TRACK RE

1989

efficient

Water meter success
Metering selected as preferred charging method – 50 per cent of customers now use water meters resulting in a 20 per cent saving on water consumption.

1992

1996

competitive

No 1 position on competition
Awarded five out of the first seven inset appointments granted by Ofwat to date including the first to a private residential development.

responsible

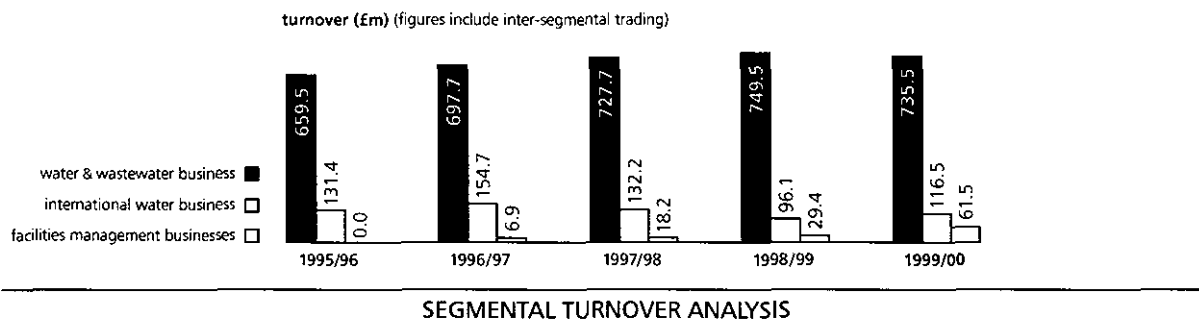
Anglian Water first to tackle social exclusion
First UK water company to set up an independent trust fund to help customers with debt problems. First company to offer tariffs offering protection to vulnerable groups.

CHRIS MELLOR

1999/00 was one of the most significant years in the 10 year history of the Anglian Water group. Following a major reorganisation of the group, completed in March 2000, we now have in place the operating structure we need to enable us to deliver improved efficiency and service in the UK regulated business and a step-change in non-regulated performance. Looking to the longer term, the group aspires to become a world leader in the water industry by 2007.

This vision is ambitious but achievable. We have an established and growing reputation for quality, even within the exacting requirements of the UK and European regulatory regimes. Drinking water and bathing water quality, our industry-leading control of leakage and our position as the leading UK water metering company, already place us in the front rank. To underline this, in 1999/00 we earned the title Britain's Most Admired Water Company.

Chris Mellor group managing director
31 May 2000



Excellent performance in the UK is critical to developing our brand and reputation and winning new business abroad. The high standards we set for quality, innovation and cost-efficiency mean we have made an increasing impact in our targeted global markets. We have a skilled workforce in the environment we have created, where award-winning communications, ongoing training, recognition, incentives and management structures which promote ownership and decision making, all combine to encourage our people to contribute to the vision and values of the group.

The next 12 months could well see more change in the UK water industry than in the previous decade, as a result of accelerated competition and amid signs that the traditional approach to water and wastewater service delivery is beginning to fracture. Anglian Water has anticipated and prepared for this change. In a new and challenging regulatory environment, we have created an integrated structure and fostered an even more commercial, innovative and competitive ethos among our employees. This will enable us to draw on all our strengths in both the regulated and non-regulated activities.

We have pioneered competition through our inset appointments and acquisitions. We are drawing on our environmental and change management expertise as part of a consortium bidding to operate the infrastructure of the London Underground.

Our track record of success in the UK has enabled us to win key contracts throughout the world, including work in five capital cities. The continued growth of our facilities management companies, including the launch of an on-line shopping service, Anglian Water Direct, demonstrates our determination to seek new profit streams to add value to the business.

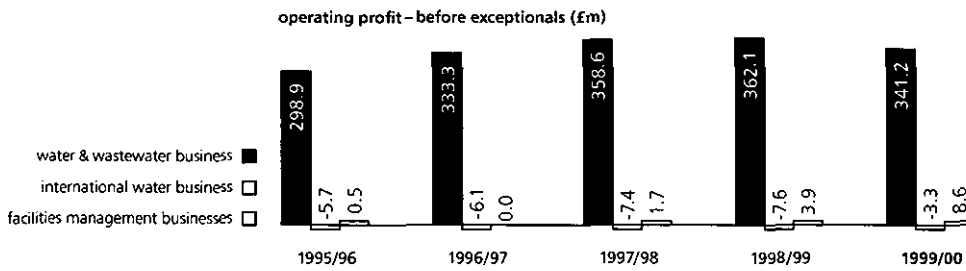
While the future is challenging, the Anglian Water group is well-placed and well-equipped to profit from the opportunities that will arise in the near future.

review of the year

UK regulated business

1999/00 has been the Anglian Water group's most successful year:

- we beat our leakage targets to regain the number one position in the industry for leakage control;
- we rose from sixth to second place in the service efficiency league table published by the industry regulator, Ofwat;
- we lead the industry in the number of customers – 50 per cent – who are now on metered supplies;
- in water and wastewater treatment quality, where we have always set industry standards, we achieved our best-ever levels of compliance. In the 1999 Drinking Water Inspectorate report Anglian Water was one of six companies described as 'significantly above average' and one of only two described as demonstrating 'a significant trend of improvement';
- we maintained our position as the industry leader on competition, negotiating a host of supply contracts and achieving five of the first seven inset appointments awarded, including the first for domestic supplies;
- two major centres were established in the eastern region to improve efficiency and bring immediate benefits to our UK and overseas operations. Our new £4 million central laboratory in Huntingdon streamlines the vital service our scientists offer, and the engineering centre of excellence in Peterborough, home to a powerful new technology group, brings under one roof the skills which are essential to our ongoing success world-wide.



SEGMENTAL OPERATING PROFIT ANALYSIS

international water business

Strong progress has been made in our international business following considerable success in bidding for contracts overseas:

- new contracts have been awarded in the Republic of Ireland, Thailand, Australia and Abu Dhabi;
- we completed the acquisition of SmVAK in the Czech Republic;
- Anglian Water International is part of a consortium awarded the ESVAL privatisation in Chile;
- Anglian Water is now operating in Bangkok, Beijing, Dublin, Oslo and Wellington, serving 5.8 million people outside the UK.

facilities management businesses

We have seen strong growth in facilities management (FM), which is now making a significant contribution to earnings. FM is split into four divisions: vehicle leasing, environmental services, property and e-commerce:

- FM doubled turnover and profits during the year;
- Anglian Water is a member of the LINC consortium bidding to operate the infrastructure of London Underground;
- we acquired MVM Holdings (data mapping) and Structural Technologies Ltd (STL) (asset management);
- we launched Anglian Water Direct, our award-winning internet shopping and services site, on the world-wide web (www.anglianwaterdirect.com).

We have demonstrated our ability to create value in a variety of sectors, and we look forward to reporting further progress as companies continue to outsource more of their operations.

reorganising our business

The reorganisation, begun in May 1999 and completed in March 2000, retains the strength derived from our public service traditions and focuses on the creation of a single, integrated structure to remove unnecessary demarcations between our group operations. Our objective is outperformance in the UK regulated business and growth for our non-regulated operations.

Three core business units – business development, service delivery and performance excellence – will enhance the quality of existing operations while encouraging commercial and innovative management to increase our competitive edge.

business development

Three areas – business development, commercial and facilities management – have been developed to enhance and strengthen the capability of the group, and we are confident of meeting our targets to deliver a material contribution to the group’s earnings by 2002/03.

A series of international contract awards during the last year in our target markets of Asia Pacific, Europe and South America illustrates that our structured strategy will create value in the medium term.

Asia Pacific

We were awarded a £50 million leakage reduction contract in Bangkok, Thailand.

PURAC has won a contract to build a £30 million sewerage and wastewater treatment system in Chiangmai, Thailand.

We have formed strong alliances in the Far East with Mitsubishi Corporation and M-Power so that we are well-placed to take advantage of further opportunities as they arise.

growing our markets

10 | Excellent performance in the UK is critical to developing our brand and reputation and winning new business abroad.

Global Expertise

IRELAND: RINGSEND, DUBLIN

Anglian Water, as part of the ABA consortium, signed one of the biggest contracts of its kind in the history of the Irish state with the Dublin Corporation in Ireland. The design, build and operate project will provide the city of Dublin with a new wastewater treatment works serving a population of 1.5 million.

SOUTH AMERICA

Operating in Argentina, Chile and Brazil. As well as providing water and sewerage services, innovative projects have helped dramatically improve the local environment.

CHILE

Anglian Water is part of the consortium that won the first water and wastewater privatisation business in Chile.

SERVING A GLOBAL POPULATION OF

11.6 million

NORWAY: BEKKELAGET, OSLO
PURAC, in conjunction with Kaldnes Miljøteknologi AS and Selmer Asa, won the contract to build the Bekkelaget sewage treatment plant in Oslo against tough international competition. The existing treatment works is to be replaced by a completely new plant built into solid rock.

EUROPE

As well as working in Bosnia, Denmark, Germany, Latvia, Poland and Sweden, Anglian Water provides water and sewerage services to over a million customers in the Czech Republic.

MIDDLE EAST Anglian Water maintains and operates a series of sewage and drainage pumping stations on Abu Dhabi Island, United Arab Emirates.

AUSTRALIA / NEW ZEALAND

Anglian Water has built, and is now operating, a sewage treatment facility to serve the capital city of Wellington, New Zealand.

In March 2000, a contract was signed to design, build and operate sewage treatment works near Brisbane (Redcliffe), Australia.

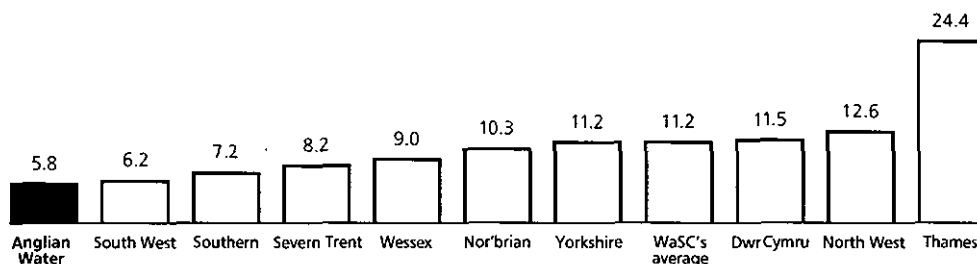
£873m

TURNOVER

ASIA PACIFIC In recent years, Anglian Water has won 28 contracts in China and is looking to increase this number in the coming months. We have companies in China, Thailand, Malaysia, the Philippines and Singapore as well as offices in Vietnam. Our expertise has helped us win two leakage contracts in Bangkok, Thailand, in addition to a contract to build a sewage treatment works and sewer network in Chiangmai, Thailand.

NEW ZEALAND: MOA POINT, WELLINGTON

Anglian Water has completed a design, build, finance and operate contract for wastewater treatment facilities for the city of Wellington, New Zealand.



source: Ofwat 1998/99 Report on Leakage and Water Efficiency © Crown copyright 1999

LEAKAGE LEVELS 1998/99 (m³/km/day)

business development (continued)

Europe

We are part of a consortium that was awarded a £185 million contract to build and operate a new sewage treatment works in Dublin, Ireland.

South America

Anglian Water International is part of a consortium (ESVAL) which won a privatisation contract in Chile's second city of Valparaiso, serving a population of 1.5 million.

North America

Recognising the opportunity to create value, we completed the sale of our US joint venture, AmericanAnglian, realising a profit of £16.0 million.

UK

Within the UK, our nine facilities management companies recorded very good profit growth. Following two further acquisitions in 1999/00 – MVM Holdings, which provides data-mapping services and STL, an asset management company – turnover and profit have doubled.

Taking advantage of the dot com revolution, we launched Anglian Water Direct, a first in the utility sector, offering on-line shopping for a range of household goods and services.

service delivery

A new service delivery arm is responsible for delivering outperformance for our water and wastewater business worldwide. There are three key components:

assets

The Global Infrastructure Management Company (GIMCo), an asset management business specialising in all areas –

treatment works, networks and capital investment programmes. GIMCo will concentrate on getting maximum value from all our assets, ensuring operating and cost efficiency and contributing management skills to our commercial projects around the world.

operations

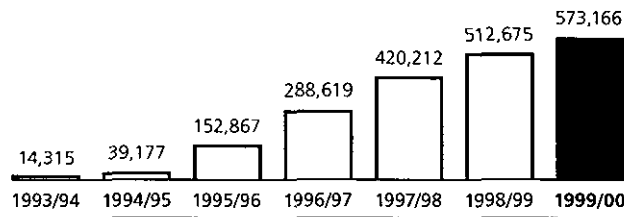
Two concession companies (one for water and one for wastewater) will operate as commercial companies in the UK. They are already prepared for competition in the industry and will look for profitable opportunities in the domestic, commercial and industrial sectors, while protecting our own customer base by continuing first-class service. Within operations, business services provides the link to our customers and strategic sourcing for the whole of service delivery.

International Operations is responsible for service delivery and profitability from our service companies and concessions. The operational and management capabilities within the UK are available to customers throughout the world.

solutions

A £250 million per annum technology group is now headquartered in Peterborough. Drawing together project management, engineering, PURAC and innovation, the group will exploit our technological know-how to apply innovative and efficient solutions to water and wastewater management projects in the UK and abroad.

For example, our process engineering subsidiary, PURAC, is a key part of our competitive strategy both in the UK and worldwide. It has a track record of success on major schemes in the Far East and Australia as well as Europe. PURAC has recently won a £30 million contract to build



DOMESTIC METER INSTALLATION PROFILE (cumulative total)

and operate a sewer network and wastewater treatment works at Chiangmai, Thailand, together with a design, build and operate contract for a wastewater treatment works for Brisbane, Australia. These complement PURAC's strong presence in China, where it has 28 water and wastewater treatment projects completed or under way.

performance excellence

Performance excellence supports the group organisation through the provision of finance, regulation, legal, risk management and information services.

developing our people

We have recognised that reorganisation must go hand in hand with cultural and behavioural change if we are to deliver a step-change in performance throughout the business.

The strategic and tactical opportunities which the new group structure delivers must be underpinned by managers and teams who live up to the high expectations of our customers. We have, therefore, embarked on a leadership programme to equip our team leaders with the vital commercial, innovative and leadership skills needed to step up our performance and achieve our corporate objectives.

developing our reputation

There are clear links between the requirements of our stakeholder groups – shareholders, customers, employees and regulators. For example, our new community policy has at its heart a programme of employees volunteering to carry out work within their local communities, on charitable or environmental projects, with matching time off from the company. As part of our graduate programme, graduates

will be seconded to selected external organisations to develop their own capabilities and bring benefits to the organisation and community concerned as well as personal growth for the employee.

Moreover, satisfying one stakeholder group at the expense of another is not sustainable, so we have developed a 'balanced scorecard' approach to strategic planning which ensures that environmental and employee development targets are recognised alongside financial targets.

Investment in employees, the environment and the community is essential for companies like Anglian Water which seek to lead. We are committed to a sustainable approach to our business. This means sponsoring a culture whereby every decision reflects the impact on the environment and the community. To manage this process, we have adopted targets (on energy use, environmental management and the community) which will enable us to track our performance against the long-term objective to become a fully-sustainable business. We have also changed the scope and name of the board environment committee to reflect its broader remit and give the drive for sustainability real impetus.

The signs of our success are already there – we have an excellent foundation from which to build and an exciting range of growth opportunities to pursue – we have a new identity to carry forward. We are confident that we have the structure, the skills and the systems, to make awg plc a symbol for success worldwide.

constantly evolving solutions

14

We apply innovative and efficient solutions to water and wastewater management projects in the UK and abroad.

HARNESSING

ULTRASOUND TECHNOLOGY

Ultrasound is used to break up bacterial cells in biosolids. Sludge reductions in excess of 20 per cent have been observed in a pilot activated sludge process.

CRYPTOSPORIDIUM EXPERTISE

Anglian Water has invested £4 million in a new state-of-the-art laboratory which will be a centre of excellence for the analysis of water including testing for cryptosporidium. This new facility puts Anglian Water at the forefront of technology in the field of water analysis.

MEMBRANE TECHNOLOGY Anglian Water, in partnership with TXU Europe Power, has completed the construction of a high purity water production plant at Flag Fen sewage treatment works. The plant uses advanced membrane technology to enhance the quality of the sewage effluent before sending it to a nearby power station where it is turned into steam to power the generators. Alpheus Environmental Ltd, a subsidiary of the Anglian Water Group, is running the contract as a build, own, operate water supply scheme.

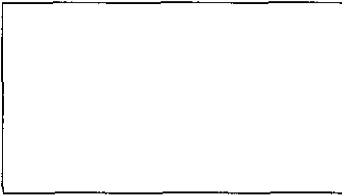
TECHNOLOGY

PURAC In a joint venture with AMEC, PURAC won a £28 million contract to build new sewage treatment works for North West Water – the contract includes new preliminary, primary, secondary and sludge treatment facilities together with a new extended outfall works – the project will be completed in December 2000.

MOBILISED FILM TECHNOLOGY Mobilised film technology (MFT) is an anaerobic treatment process for treating municipal wastewater, being developed jointly with Anglian Water and AnAerobics Inc. in the USA. The benefit of the MFT process over traditional anaerobic processes is the way it presents a very high surface area for bacterial colonisation. The process will provide us with a low operating cost solution to wastewater treatment.

board of directors

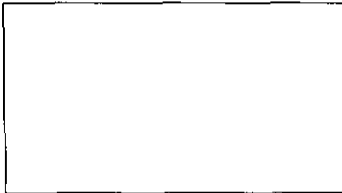
ROBIN GOURLAY CHAIRMAN 1,10



BSc (61) 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 1999); 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).

CHRIS MELLOR GROUP MANAGING DIRECTOR 6



IPFA (51) 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).

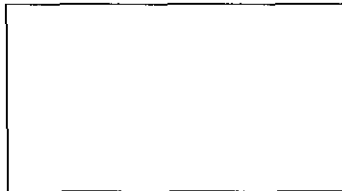
TONY ECKFORD DIRECTOR 1



(51) 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).

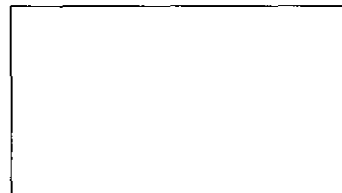
ROY POINTER DIRECTOR 1



CEng (54) 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).

ELLIOTT MANNIS FINANCE DIRECTOR 1,4



B Comm, CA (38) 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).

KEY

- | | |
|---|---|
| 1 member of executive committee | 6 chairman of executive committee |
| 2 member of audit committee | 7 chairman of audit committee |
| 3 member of remuneration committee | 8 chairman of remuneration committee |
| 4 member of sustainable development committee | 9 chairman of sustainable development committee |
| 5 member of nominations committee | 10 chairman of nominations committee |
-

JUNE DE MOLLER

(52) NON-EXECUTIVE DIRECTOR, ANGLIAN WATER PLC (1992 TO 2000)

June de Moller retired from the board on 20 January 2000.

RICHARD JEWSON 3,5,7



MA (55) 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, InterX Plc (1994 to date); non-executive director, Queens Moat Houses 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 Group Ltd (1996 to 2000); chairman Octagon Healthcare (1998 to date).

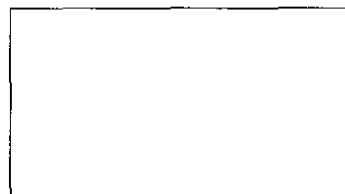
DAVID CHALLEN 2,3



(57) NON-EXECUTIVE DIRECTOR, ANGLIAN WATER PLC (1993 TO DATE)

co-chairman (2000 to date), Schroder Salomon Smith Barney; director (1979 to 1997), chairman (1997 to 2000), J Henry Schroder & Co. Ltd; member, Takeover Panel (1993 to 1994 and 1999 to date); member, Governing Body of Morley College (1993 to 1999); member, Advisory Committee on Business and the Environment (1991 to 1993); member, Financial Reporting Council (1995 to date); chairman, Financial Services Practitioner Forum (1998 to date); non-executive director, Thomson Travel Group Plc (1998 to date).

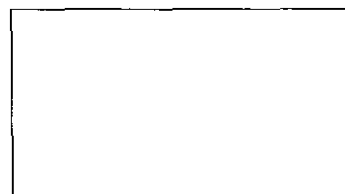
SALLY O'SULLIVAN 3,4



BA (50) NON-EXECUTIVE DIRECTOR, ANGLIAN WATER PLC (1997 TO DATE)

chief executive, Caba! Communications (1998 to date); editor-in-chief, Ideal Home and Home Interest Group, IPC Magazines (1996 to 1998); editor-in-chief, Good Housekeeping (1991 to 1996); non-executive director, London Transport (1995 to date); member, Broadcasting Standards Commission (1994 to date).

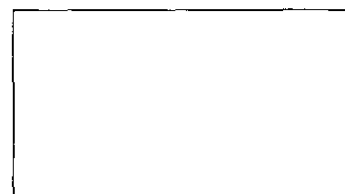
JAMES CRONIN 2,3,5



FCMA (62) NON-EXECUTIVE DIRECTOR, ANGLIAN WATER PLC (1996 TO DATE)

deputy chief executive officer, Alstom (1990 to date); director, GEC plc (1994 to 1998).

BARONESS YOUNG OF OLD SCONE 2,3,9



MA, AHSM (52) 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, Institute of Public Policy Research (1999 to date); Council Member, Forum for the Future (1999 to date); chief executive, RSPB (1991 to 1998); various posts in health services management (1971 to 1990).

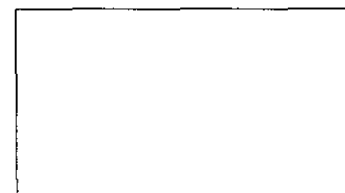
JIM McKENNA 8



(45) NON-EXECUTIVE DIRECTOR, ANGLIAN WATER PLC (2000 TO DATE)

executive director, Logica plc (1993 to date); GEC Marconi, personnel director (1990 to 1993); Plessey Avionics Ltd, personnel director (1987 to 1990); Logica UK Ltd, personnel manager (1985 to 1987); Plessey Company plc, personnel and development posts.

ERYL MORRIS 2,3



(56) NON-EXECUTIVE DIRECTOR, ANGLIAN WATER PLC (2000 TO DATE)

chairman Airinmar Ltd (2000 to date); chairman Safetynet Group Ltd (1999 to date); deputy chairman of Blagden Industries plc (1998 to date); non-executive director of Berisford plc (1998 to date); non-executive director, Courtaulds Textiles plc (1994 to 1998); non-executive director, Manweb plc (1989 to 1995); Courtaulds plc (1970 to 1998), director 1981 and deputy chief executive 1994.

overview

The results represent a good performance after taking account of the voluntary price freeze (at a cost of approximately £30.0 million) that was implemented by Anglian Water Services in advance of the Office of Water Services (Ofwat) Price Determination.

At a group level, turnover has risen from £829.2 million to £872.9 million mainly due to our acquisitions in the Czech Republic and the expansion of our Facilities Management businesses. Profit before tax and exceptionals has fallen from £258.0 million to £230.6 million and there are net exceptional charges of £26.7 million. Charges of £38.0 million have been incurred for redundancies and other implementation costs of our group reorganisation and a further £5.1 million spent on our Year 2000 programme. Offsetting these are £16.0 million profit on the sale of our share in the AmericanAnglian joint venture and £0.4 million profit on the sale of our holding in Cambridge Water Plc.

Increases in interest charges to fund our capital programme and business development activities together with a tax charge for the year of £38.0 million (1999 £3.4 million) have resulted in a fall in the profit on ordinary activities after tax from £223.7 million to £165.9 million.

Earnings per share before exceptional items have fallen by 24.0 per cent from 91.5p to 69.5p.

water supply and wastewater services

The financial performance was significantly affected by the voluntary price freeze implemented at a cost of approximately £30.0 million. Since it was apparent that there would be price reductions from 2000 the directors believed it was not appropriate to increase prices

in 1999/00 only to reduce them by a large amount in 2000/01 following Ofwat's price determination. This voluntary deferral of price increase was fully compensated for in prices set for the five years to 2005.

In 1999/00 turnover fell by 1.9 per cent, largely as a result of the effect of customers switching to water meters. The percentage of turnover relating to measured customers now stands at 42.9 per cent up from 36.2 per cent in the previous year as customers continue to switch to metered supply.

Operating costs, excluding exceptional charges and depreciation, rose from £269.1 million to £271.6 million reflecting inflation and additional obligations, offset by efficiency gains as our group re-organisation begins to provide benefits.

The Final Determination of the Periodic Review was announced by Ofwat on 25 November. The announcement required Anglian Water Services to reduce average customer bills for 2000/01 by 10 per cent before allowing them to remain roughly stable in real terms during the next four years. As part of the Determination Anglian Water will be investing about £1.4 billion over five years on further improving bathing and river water quality.

Anglian Water International (AWI)

Turnover, excluding joint ventures and associates, has increased from £96.1 million to £116.5 million largely as a result of a full year's contribution from VAKJC and the acquisition of a majority shareholding in SmVAK, both in the Czech Republic, and increased turnover on our leakage reduction contract in the Republic of Ireland.

Operating losses have been reduced from £7.6 million to £3.3 million. These comprise contract profits of £5.3 million (1999 – £1.0 million) offset by development costs of £8.6 million (1999 – £8.6 million).

We now own 94.4 per cent of VAKJC after purchasing a further 4.2 per cent in May 1999 for £0.3 million. During 1999/00 we acquired a 53.4 per cent shareholding in SmVAK for £34.1 million.

Additional business wins included projects in Thailand, Australia and Abu Dhabi.

In September 1999 we reached agreement with our partner American Waterworks Inc. to sell them our share of the AmericanAnglian joint venture. The transaction was concluded in January 2000 and a profit on disposal of £16.0 million was achieved before tax.

facilities management (FM)

Our FM companies have contributed turnover of £61.5 million (1999 – £29.4 million) and operating profit of £8.6 million (1999 – £3.9 million) to group performance.

Significant growth has been achieved by the existing businesses during the year particularly by Powermarque which recorded a 67.1 per cent increase in turnover to £30.9 million.

During the year MVM Holdings Limited, a data mapping company and Structural Technologies Limited, an asset management company were acquired by the FM group.

interest and tax

Net interest payable increased from £98.7 million to £114.0 million reflecting the effect of the increase in borrowing to finance the capital investment programme and our UK and international acquisitions.

The tax charge of £38.0 million comprises £31.8 million of UK mainstream corporation tax, £0.2 million of overseas tax and a provision of £6.0 million in respect of US tax, consequent upon the disposal of our share in the AmericanAnglian joint venture.

financial needs and resources

At 31 March 2000 the group had net borrowings of £1,599.1 million, an increase of £249.0 million over the year.

The increased borrowings have been financed by £267.7 million of new debt, principally Eurobonds and additional finance leasing of £17.2 million. The business generated a net cash inflow from operating activities of £463.9 million in 2000 (1999 – £437.7 million).

Capital expenditure for the year, with total expenditure at £397.4 million, was 7 per cent higher than in 1999. Investment in 2000/01 is expected to be lower reflecting the obligations and funding agreed as part of the Final Determination.

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 March 2000 and treasury matters are reported monthly to the board.

management of financial risk (continued)

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.

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 interest or exchange 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 focused on the efficient and effective management of cash and financial resources within the group. This involves efficiency, quality and effective controls 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 external customers and promote cash awareness throughout the group;
- enhance control of financial resources.

The policy is reviewed annually by the board.

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 £163.1 million and had undrawn committed multi-currency facilities of £295 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 borrowings is set out in note 22.

borrowing covenants

With the exception of asset based funding in Anglian Water Services Limited and some small overseas units, all group company borrowings are raised or guaranteed by Anglian Water Plc. 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 if these have been contracted.

interest rates

The group's policy as agreed by the board is to borrow in markets to achieve optimum funding costs at indexed, fixed and floating rates of interest and then uses interest rate derivatives to generate the desired interest profile and to manage the group's exposure to interest rate fluctuations. At the year end eight per cent of the group's borrowings were indexed to inflation, 59 per cent at fixed rates and 33 per cent at floating rates of interest taking into account interest rate swaps. The group has a substantial proportion of its income linked to inflation through its subsidiary, Anglian Water Services Limited and, since 31 March 2000, the group has increased its net debt hedged to inflation through a further £150 million index linked stock issue. This results in 15 per cent of the debt portfolio being indexed to inflation.

foreign currency

The group has small but growing 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. The accounting policy is to reflect the underlying nature of the transaction and any hedge.

The group's foreign exchange exposure management policy, as agreed by the board, is to hedge material transactional exposures against the reporting currency. Forward foreign exchange contracts are used to hedge contractual exposures.

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, at certain thresholds, may be hedged by currency borrowing or cross-currency swaps. Following the recent acquisitions in the Czech Republic and Chile the group has acquired, for the first time, significant overseas net assets and investments. These have been partially hedged during the year through currency borrowings and currency swaps.

Year 2000

The group successfully achieved Year 2000 compliance for all its core embedded chips and IT systems in June 1999. Further work to ensure compliance of administrative buildings and business support processes and to update contingency and emergency planning were complete by November 1999.

The total cost of this compliance work was £28.3 million of which £5.1 million has been charged as an exceptional operating cost in 2000 and £1.2 million capitalised as a fixed asset.

On the millennium night itself, and subsequently, no significant operational non-compliance has been detected and the compliance work can be judged as having successfully achieved its objective of minimising the group's exposure to Year 2000 risk.

shareholders' return and value created

The group has continued to look at ways of creating shareholder value. In order to begin to realise value for Anglian Water's £158 million surplus Advance Corporation Tax (ACT), we announced at the interim results an issue of redeemable shares.

At the preliminary announcement we outlined proposals to introduce a new holding company which will enable the group to continue to recover the surplus ACT by making further issues of redeemable shares. The new holding company is expected to be introduced in October following Court and shareholder approval for the proposals.

Although no dividend is proposed, we will be making total payments for the year of 43.0 pence per share, the same amount as last year's dividend.

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 on corporate governance, issued by the committee on corporate governance in June 1998, annexed to the Listing Rules of the Financial Services Authority (the competent authority for listing in the United Kingdom) under Section 142 of the Financial Services Act.

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 has adopted the transitional arrangements for reporting on internal control permitted by the London Stock Exchange.

the board

The board currently comprises 12 members with a considerable breadth of business and environmental experience. Seven 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 it 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. The members of the nominations committee are Mr R W Jewson, Mr J B Cronin and Mr R M Gourlay (chairman). 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 1999/00 is submitted to shareholders on pages 25 to 29 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 are 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 1999 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 2000 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 control

Guidance was published in September 1999 by the Institute of Chartered Accountants in England and Wales to listed companies on maintaining a sound system of internal control and how they should review the effectiveness of that system (the Turnbull Report). The board already attaches considerable importance to the group's system of internal control and risk management and has taken a number of further steps in the current year to introduce a more structured approach to risk management. As a result the directors will be able to report to shareholders on internal controls in full compliance with the guidance for the year ending 31 March 2001. Steps taken included:

- expanding the role of the audit committee to cover risk management and increasing the number of meetings to four times a year;
- establishing a quarterly risk management committee chaired by the group finance director;
- setting up a group risk assurance function responsible for independent risk monitoring functions and reviewing the effectiveness of risk management across the group;
- carrying out a comprehensive exercise to identify and evaluate the key risks across the group and the controls in place;
- improving procedures for the monthly reporting of risk and control issues to the board.

As several of the group companies are regulated utilities, a number of policies, documented procedures and controls already exist to address some of the key non-financial risks, including appropriate procedures to deal with incidents and 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.

The board has adopted the transitional approach permitted by the London Stock Exchange and has, therefore, reported on internal financial controls only.

internal financial control

In addition to their responsibilities under company law set out in the statement of directors' responsibilities, the directors have also acknowledged 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 on all 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.

statement of directors' responsibilities

Company law requires the directors to prepare for each financial year financial statements 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 responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and 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: Mr J A P McKenna (chairman), Mr D J Challen, Mr J B Cronin, Mr R W Jewson, Mr G E Morris, 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 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 Combined Code on Corporate Governance.

remuneration policy

In formulating remuneration policy, the committee gives full consideration to the relevant provisions of the Combined Code. In particular, the committee aims to ensure that remuneration policies and practices for executive directors are consistent with the policies and practices for the wider body of senior executives. The policy is designed to attract, retain and motivate the 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 that of the company's stakeholders, 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 remuneration packages for directors and senior executives 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

Each executive director's package comprises four elements: base salary and benefits, annual bonus, a long-term incentive share scheme and pension. The benefits include a car and insurances for life, disability, personal accident and health. In common with all UK-based employees, executive directors are eligible to participate in a Save As You Earn scheme, a profit-sharing scheme and a profit-linked pay scheme which ceased on 31 March 2000.

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

service contracts

All executive directors 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 for 1999/00, which is not pensionable, is a maximum of 30 per cent of base salary. The bonuses of the senior managers in the group are assessed against relevant measures for their respective part of the business. Their maximum bonus is also 30 per cent of salary.

incentive arrangements (continued)

Performance is assessed using measured objectives for:

- financial targets (including Anglian Water Services' profit and capital expenditure, performance of Anglian Water International 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 The Office of Water Services (including leakage);
- public and customer relations measured by independent surveys.

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

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

long-term incentive share scheme

A long-term incentive share scheme was introduced in 1997. 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 managers.

Under the scheme, each participant is conditionally awarded a number of shares based on a value equating to a percentage (currently 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. No shares have to date been released.

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 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 1999 these fees were £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	1999/00 Total £000	1998/99 Total £000
R M Gourlay	145	11	–	156	145
C J Mellor	237	12	57	306	250
A T Eckford	160	13	38	211	200
E M Mannis (appointed 22/7/98) ⁽¹⁾	150	18	36	204	139
R A Pointer	145	9	35	189	172
D J Challen	22	–	–	22	22
R W Jewson	31	1	–	32	32
J McKenna (appointed 20/1/00)	5	–	–	5	–
J F de Moller (resigned 20/1/00)	23	–	–	23	27
E Morris (appointed 20/1/00)	4	–	–	4	–
S A O'Sullivan	22	–	–	22	22
J B Cronin	22	–	–	22	22
Baroness Young of Old Scone (appointed 1/8/98)	27	–	–	27	15
	993	64	166	1,223	1,046
Contributions to defined benefit pension schemes				169	140
Gains on exercise of share options				1	20
				1,393	1,206

⁽¹⁾ Includes under 'Benefits' £5,330 relocation expenses.

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 £0.1 million (1999 – £0.3 million) is included in the accounts in respect of this scheme.

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 (1999 – £22,000).

The pensions benefits of directors in the year to 31 March 2000 are summarised on the next page in accordance with the Listing Rules of the Financial Services Authority (rounded to the nearest thousand pounds).

directors' emoluments (continued)

	At 31 March 1999					
	Accrued pension	Increase in accrued pension	Accrued pension lump sum	Transfer value of increases	Accrued pension	Accrued pension lump sum
	2000 £000 ⁽¹⁾	2000 £000 ⁽²⁾	2000 £000 ⁽³⁾	2000 £000 ⁽⁴⁾⁽⁵⁾	£000 ⁽¹⁾	£000 ⁽³⁾
R M Gourlay	29	5	–	118	23	–
C J Mellor	109	17	273	305	89	223
A T Eckford	20	6	–	98	14	–
R A Pointer	74	6	205	107	67	184
E M Mannis	7	4	–	37	3	–

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

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

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

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

(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 on improvement award.

Mr R M Gourlay, Mr A T Eckford and Mr E M Mannis participate in funded, unapproved retirement benefit schemes. For the year 1999/00 the company contributed to these schemes in respect of Mr R M Gourlay £31,262 (1999 – £28,942), in respect of Mr A T Eckford £31,161 (1999 – £45,175) and in respect of Mr E M Mannis £18,532 (1999 – £11,235). 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.

directors' interests in shares and debentures

Throughout the table, all interests in shares as at 31 March 2000 are in relation to new ordinary shares of 47 1/7 pence each following the capital reorganisation in 1998.

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

Beneficial and family interests in shares:	31 March 2000 no. of shares	1 April 1999 no. of shares
R M Gourlay	2,011	1,011
C J Mellor	15,972	8,805
E M Mannis	9,067	250
A T Eckford	2,720	833
R A Pointer	14,694	11,003
D J Challen	964	964
R W Jewson	784	784
J McKenna†	–	–
J F de Moller§	723	723
E Morris†	4,000	–
S A O'Sullivan	233	233
Baroness Young of Old Scone	1,086	–
J B Cronin	12,411	2,411

† appointed 20 January 2000.

§ at date of resignation 20 January 2000.

The figures at 31 March 2000 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 (1,578), Mr A T Eckford (1,262), Mr R A Pointer (879) and Mr E M Mannis (817).

Following the issue of redeemable shares on 6th March 2000, Mr R M Gourlay, Mr C J Mellor, Mr A T Eckford and Mr R A Pointer each hold 9,984 redeemable shares. These shares were issued in respect of their free, matching and contributed shares held in trust by Anlian Water Share Scheme Trustees Limited.

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 35,221 (1999–20,107); Mr A T Eckford 27,820 (1999–17,617); Mr R A Pointer 22,319 (1999–13,497) and Mr E M Mannis 16,625 (1999–7,059).

Options to subscribe for ordinary shares, under the sharesave and executive share option schemes, granted to, lapsed 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.

Sharesave scheme options	Options outstanding 1 April 1999	Options granted			Options exercised					Options outstanding as at 31 March 2000	
	Number	Number	Option price (£)	Number	Weighted average exercise price (£)	Weighted average market price (£)	Gain on exercise of options (£)	Options Lapsed	Option price (£)	Number	Weighted average exercise price (£)
R M Gourlay	3,709	–	–	–	–	–	–	–	–	3,709	4.65
C J Mellor	2,717	892	4.34	862	4.52	5.30	672	–	–	2,747	5.17
E M Mannis	1,360	2,232	4.34	–	–	–	–	1,360	7.12	2,232	4.34
A T Eckford	2,786	3,888	4.34	–	–	–	–	2,786	6.19	3,888	4.34
R A Pointer	2,769	892	4.34	–	–	–	–	544	7.12	3,117	4.56
Executive share options											
R A Pointer	16,805	–	–	–	–	–	–	–	–	16,805	4.74

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 2000 was £5.1825, and the range during the year was £7.955 to £3.955. At 31 March 2000, and throughout the year, Mr D J Challen held £24,000 of the company's 5½ per cent Index Linked Loan Stock 2008. On 31 March 2000 Ms Sally O'Sullivan held 29,824 redeemable shares which were issued on 6 March 2000.

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

Jim McKenna

chairman, remuneration committee

The directors have pleasure in presenting their report and the audited statements of Anglian Water Plc for the year ended 31 March 2000.

principal activities, business review and future developments

The principal activities of the group during the year were water supply and distribution, wastewater collection and treatment, and process engineering.

group results and dividends

The profit and loss account on page 32 shows the group's results and retained profits for the year. In order to bring forward the date when Anglian Water can begin to realise value for its surplus ACT of £158 million, no cash dividend is being paid. Redeemable shares were issued following the interims on the basis of 12.8 pence per share paid up out of the share premium account. It is proposed that a similar issue of redeemable shares will be made in place of the final dividend at the rate of 30.2 pence per share providing a full year total of 43.0 pence (1999–43.0 pence). To enable the group to continue to make further issues of redeemable shares a new holding company is expected to be introduced in October following Court and shareholder approval for the proposals. As the issue will be redeemable later than the expected date for a cash payment, shareholders will be compensated for the effects of the delay by receiving a one-off enhancement. The exact amount will be determined once the payment date is confirmed.

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 54. Options outstanding under the company's share option schemes at 31 March 2000 were as set out below. These include options granted to directors and detailed on page 29.

As at March 2000 these options were over ordinary shares.

	No. of Ordinary Shares	Date of Grant	Option Price
Sharesave Scheme	98,977	21 December 1992	£3.82
Sharesave Scheme	121,116	20 December 1993	£4.04
Sharesave Scheme	791,848	14 December 1995	£4.65
Sharesave Scheme	542,754	12 December 1996	£4.52
Sharesave Scheme	454,343	10 December 1997	£6.19
Sharesave Scheme	316,351	9 December 1998	£7.12
Sharesave Scheme	1,960,051	13 January 2000	£4.34
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	20,163	7 July 1993	£4.74
Executive Share Option Scheme	2,782	1 December 1993	£5.30
Executive Share Option Scheme	65,312	15 August 1994	£5.375
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 granted 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 2000 are on pages 16 and 17.

Mr R M Gourlay, Mr R A Pointer and Mr R W Jewson retire by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election. Mr R M Gourlay and Mr R A Pointer have a service contract terminable on one year's notice. Mr R W Jewson does not have a service contract.

Mr J A P McKenna and Mr G E Morris, having been appointed during the year, offer themselves for re-election. Mr J A P McKenna and Mr G E Morris do not have service contracts.

directors' interests

The interests of 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 30 May 2000 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 annual general meeting in July 1999 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. Following approval from shareholders at the extraordinary general meeting in February 2000, 34,845,672,960 redeemable shares were issued on 6 March 2000. Between 20 and 21 March early redemptions and initial redemption were processed resulting in the cancellation of 32,384,212,457 redeemable shares. In addition the B shares were cancelled on 18 April 2000 following shareholder approval.

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 2000, the group had 63 days purchases outstanding (1999 - 60 days).

charitable and political donations

During the year the group made a payment of £2 million (1999 - £2 million) to the Anglian Water Trust fund and other charitable donations of £80,914 (1999 - £127,929).

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, electronic mailings 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 is given. Career development and promotion of disabled people is, as far as possible, identical to that of other employees.

auditors

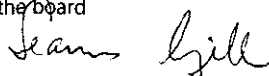
PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution proposing their reappointment will be put to the annual general meeting.

annual general meeting

The notice convening the annual general meeting to be held on 26 July 2000 has been sent to shareholders under separate cover, together with an explanation of the business to be conducted at the meeting.

By order of the Board

Secretary



Registered Office: Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ

Registered in England No. 2366618

31 May 2000

group profit and loss account

for the year ended 31 March

32 Anglian Water Plc Annual Report and Accounts 2000

Notes	2000			1999		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Turnover: total group and share of joint ventures	878.5	-	878.5	838.0	-	838.0
Less: share of joint venture turnover	(5.6)	-	(5.6)	(8.8)	-	(8.8)
2 Group turnover	872.9	-	872.9	829.2	-	829.2
Operating costs						
3.4 Operating costs excluding depreciation	(391.0)	(43.1)	(434.1)	(345.5)	(35.0)	(380.5)
3 Depreciation net of amortisation of grants and contributions	(137.1)	-	(137.1)	(125.0)	(1.4)	(126.4)
3.4 Total operating costs	(528.1)	(43.1)	(571.2)	(470.5)	(36.4)	(506.9)
Group operating profit	344.8	(43.1)	301.7	358.7	(36.4)	322.3
Share of operating loss in						
- joint ventures	(0.2)	-	(0.2)	(1.9)	-	(1.9)
- associates	-	-	-	(0.1)	-	(0.1)
Total operating profit: group and share of joint ventures and associates	344.6	(43.1)	301.5	356.7	(36.4)	320.3
5 Profit on disposal of businesses	-	16.4	16.4	-	2.2	2.2
6 Profit on sale of fixed assets	-	-	-	-	3.3	3.3
2 Profit on ordinary activities before interest	344.6	(26.7)	317.9	356.7	(30.9)	325.8
8 Interest payable (net)	(114.0)	-	(114.0)	(98.7)	-	(98.7)
Profit on ordinary activities before taxation	230.6	(26.7)	203.9	258.0	(30.9)	227.1
9 Tax on profit on ordinary activities	(40.1)	2.1	(38.0)	(5.5)	2.1	(3.4)
Profit on ordinary activities after taxation for the financial year	190.5	(24.6)	165.9	252.5	(28.8)	223.7
Equity minority interest	(1.1)	-	(1.1)	-	-	-
Profit attributable to group shareholders	189.4	(24.6)	164.8	252.5	(28.8)	223.7
10 Dividends - including non-equity	(0.3)	-	(0.3)	(118.9)	-	(118.9)
Retained profit for the financial year	189.1	(24.6)	164.5	133.6	(28.8)	104.8
11 Earnings per share - basic	69.5p	(9.0p)	60.5p	91.5p	(10.5p)	81.0p
11 Earnings per share - diluted	-	-	60.3p	-	-	80.5p

The results above arise from continuing operations.

The acquisition of SmVAK during the year contributed £17.8 million towards turnover and £2.4 million towards operating profit. The acquisition of MVM Holdings Ltd and Structural Technologies Ltd during the year contributed £3.1 million towards turnover and £1.0 million towards operating profit.

statement of total recognised gains and losses

for the year ended 31 March

Notes	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Profit for the financial year	164.8	223.7	146.5	378.3
Currency translation differences on foreign currency net investments	(5.0)	(0.1)	-	-
28 Total recognised gains and losses	159.8	223.6	146.5	378.3

The notes on pages 37 to 56 form part of these financial statements.

balance sheets

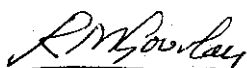
at 31 March

Anglian Water Plc Annual Report and Accounts 2000 33

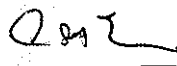
Notes	Group		Company		
	2000 £m	1999 £m	2000 £m	1999 £m	
	Fixed assets				
14	Intangible assets	15.9	0.7	--	--
15	Tangible assets	3,551.1	3,250.1	--	1.0
16	Investments				
	Joint ventures:				
	--share of gross assets	0.2	4.1	--	--
	--share of gross liabilities	(0.2)	(2.0)	--	--
	Associates	0.3	0.4	--	--
	Other investments	28.4	4.8	2,061.1	1,664.2
	Total investments	28.7	7.3	2,061.1	1,664.2
	Current assets	3,595.7	3,258.1	2,061.1	1,665.2
18	Stocks	13.5	11.7	--	--
19	Debtors	247.5	224.8	163.4	305.4
20	Investments	7.5	50.0	--	50.0
	Cash and deposits	155.6	101.4	87.5	14.7
	Creditors: amounts falling due within one year	424.1	387.9	250.9	370.1
21	Short-term borrowings	(90.0)	(65.8)	(18.3)	(0.9)
21	Other creditors	(307.9)	(367.4)	(39.6)	(142.2)
	Net current assets/(liabilities)	(397.9)	(433.2)	(57.9)	(143.1)
	Total assets less current liabilities	3,621.9	3,212.8	2,254.1	1,892.2
	Creditors: amounts falling due after more than one year				
22	Loans and other borrowings	(1,672.2)	(1,435.7)	(1,208.2)	(962.2)
23	Other creditors	(99.4)	(95.2)	--	--
	Total creditors	(1,771.6)	(1,530.9)	(1,208.2)	(962.2)
24	Provisions for liabilities and charges	(34.2)	(25.3)	--	--
	Capital and reserves	1,816.1	1,656.6	1,045.9	930.0
27,28	Called up share capital	136.9	134.1	136.9	134.1
28	Share premium account	45.6	79.0	45.6	79.0
28	Other reserves	219.1	186.4	219.1	186.4
28	Profit and loss account	1,383.0	1,256.2	644.3	530.5
	Total shareholders' funds	1,784.6	1,655.7	1,045.9	930.0
	Equity minority interest	31.5	0.9	--	--
	Capital employed	1,816.1	1,656.6	1,045.9	930.0
	Analysed as:				
	Equity	1,807.6	1,650.6	1,037.4	924.0
	Non-equity	8.5	6.0	8.5	6.0
	Total	1,816.1	1,656.6	1,045.9	930.0

The notes on pages 37 to 56 form part of these financial statements.

Approved by the board on 31 May 2000.



R M Gourlay
chairman



E M Mannis
group finance director

group cash flow statement

for the year ended 31 March

34 Anglian Water Plc Annual Report and Accounts 2000

Notes	2000 £m	1999 £m
(a) Net cash inflow from operating activities	463.9	437.7
Returns on investments and servicing of finance		
Interest received	12.8	10.0
Interest paid	(106.1)	(79.8)
Interest element of finance lease rental payments	(14.1)	(16.8)
Dividends received from trade investments	0.6	0.5
Non-equity dividends paid	(0.3)	-
	(107.1)	(86.1)
Taxation		
Windfall taxation paid	-	(65.9)
Corporation Tax paid	(25.8)	(3.7)
Advance Corporation Tax recovered/(paid)	1.0	(17.3)
	(24.8)	(86.9)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(375.0)	(377.3)
Grants and contributions received	9.7	23.1
Disposal of tangible fixed assets	12.8	12.4
	(352.5)	(341.8)
Acquisitions and disposals		
Investment in joint ventures, associated undertakings and other investments	(26.6)	(2.9)
Disposal of joint ventures and other investments	21.5	-
(b) Acquisition of subsidiary undertakings (net of cash acquired)	(33.6)	(3.4)
Disposal of subsidiary undertakings	-	21.4
	(38.7)	15.1
Equity dividends paid	(117.0)	(38.0)
Management of liquid resources		
(c) Decrease/(increase) in short-term deposits and investments	15.6	(109.5)
Net cash outflow before financing	(160.6)	(209.5)
Financing		
New share capital subscribed	2.1	72.4
Redemption of shares	(32.7)	(158.6)
Increase in loans	266.9	395.5
(d) Repayments of amounts borrowed	(37.6)	(76.6)
Amounts received under finance lease arrangements	-	7.6
Capital element of finance lease rental payments	(21.7)	(7.2)
Net cash inflow from financing	177.0	233.1
(d) Increase in cash	16.4	23.6

The notes on pages 35 and 36 form part of this cash flow statement.

notes to the group cash flow statement

Anglian Water Plc Annual Report and Accounts 2000 35

	2000 £m	1999 £m
a) reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	301.7	322.3
Dividends received from trade investments	(0.6)	(0.5)
Profit on disposal of tangible fixed assets	-	(0.8)
Depreciation (net of amortisation of deferred grants and contributions)	137.1	126.4
Amortisation of intangible fixed assets	0.4	-
Net movement on pensions balances	-	(2.4)
Net movement on other provisions	8.9	5.0
	<u>447.5</u>	<u>450.0</u>
(Increase)/decrease in working capital:		
Stocks	(1.9)	(3.5)
Debtors	(21.9)	(23.2)
Creditors	40.2	14.4
	<u>16.4</u>	<u>(12.3)</u>
Net cash inflow from operating activities	<u>463.9</u>	<u>437.7</u>

Included above are cash outflows of £20.6 million in respect of 1999/00 exceptional charges and £1.3 million in respect of prior year exceptional charges. The prior year comparative includes cash outflows of £8.7 million in respect of prior year restructuring.

	2000 £m	1999 £m
b) acquisition of subsidiary undertakings		
Net assets/(liabilities) acquired:		
Fixed assets	73.1	6.3
Stocks	0.3	0.5
Debtors	4.5	4.7
Cash at bank	9.1	0.9
Creditors	(19.5)	(4.1)
	<u>67.5</u>	<u>8.3</u>
Less: minority interest share of net assets acquired	(29.8)	(0.9)
	<u>37.7</u>	<u>7.4</u>
Goodwill	15.6	0.7
	<u>53.3</u>	<u>8.1</u>
Satisfied by:		
Cash	41.3	7.8
Retention	1.1	-
Loan notes	0.3	-
Deferred consideration	10.6	0.3
	<u>53.3</u>	<u>8.1</u>

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

Acquisition of new subsidiary undertakings		
- Total cash paid	42.4	7.8
- Less cash paid in previous accounting period	-	(3.5)
- Cash at bank of acquired subsidiaries	(9.1)	(0.9)
Net outflow of cash in respect of the acquisition of new subsidiary undertakings	<u>33.3</u>	<u>3.4</u>
Acquisition of additional shareholding in existing subsidiary	0.3	-
Outflow of cash in respect of the acquisition of subsidiary undertakings	<u>33.6</u>	<u>3.4</u>

notes to the group cash flow statement

	1 April 1999 £m	Cash flows £m	Acquisitions £m	Non cash movements £m	Exchange movement £m	31 March 2000 £m
(c) analysis of net debt						
Cash	1.5	18.6	9.1	–	(0.4)	28.8
Bank overdrafts	(6.4)	(11.3)	–	–	–	(17.7)
	(4.9)	7.3	9.1	–	(0.4)	11.1
Deposits and investments	149.9	(15.6)	–	–	–	134.3
Debt due within 1 year	(59.4)	41.7	–	(54.5)	(0.1)	(72.3)
Debt due after 1 year	(1,435.7)	(249.0)	(0.3)	13.9	(1.1)	(1,672.2)
	(1,350.1)	(215.6)	8.8	(40.6)	(1.6)	(1,599.1)

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.

	2000 £m	1999 £m
(d) movement in group net debt		
At beginning of year	(1,350.1)	(1,148.6)
Increase in cash	16.4	23.6
(Decrease)/increase in short-term deposits and investments	(15.6)	109.5
Increase in loans and finance lease arrangements	(266.9)	(403.1)
Repayment of amounts borrowed	37.6	76.6
Disposal of subsidiary	–	6.7
Non-cash finance lease inceptions	(38.9)	(16.6)
Indexation of loan stock	(1.4)	(4.6)
Amortisation of discount and expenses relating to debt issue	(0.3)	(0.6)
Exchange translation	(1.6)	(0.2)
Capital element of finance lease rental payments	21.7	7.2
At end of year	(1,599.1)	(1,350.1)

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, in accordance with the Companies Act 1985. The following principal accounting policies have been applied:

(a) changes in presentation of financial statements

FRS 15, the new standard on 'Tangible Fixed Assets' was introduced during the year. The treatment of tangible fixed assets and the capitalisation of costs has followed this standard, but no restatement of prior year comparatives was required as a result of its implementation.

(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. An entity is treated as a joint venture if the group jointly controls that entity together with one or more other venturers under a contractual arrangement. 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.

(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 level of annual 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.

1 accounting policies (continued)

(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) **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.

(n) **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.

(o) **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 revalued at closing rates of exchange and included in the sterling value of loans.

2 segmental analysis

	Turnover		Profit before interest ^(a)		Net operating assets ^(b)	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
By class of business						
Water supply and wastewater services	735.5	749.5	298.8	329.2	3,208.3	3,108.5
International ^(c)	122.1	104.9	12.4	(5.6)	171.2	(4.9)
Facilities Management ^{(d)(e)}	61.5	29.4	8.6	3.9	65.2	29.7
Other	–	–	0.4	0.2	(3.6)	2.8
Less intersegment trading ^(f)	(40.6)	(45.8)	(2.3)	(1.9)	–	–
	878.5	838.0	317.9	325.8	3,441.1	3,136.1
Total						
– Group	872.9	829.2	318.1	327.8	3,441.1	3,134.4
– Joint ventures and associates ^(g)	5.6	8.8	(0.2)	(2.0)	–	1.7
By geographical origin						
United Kingdom	784.1	775.4	294.0	325.0	3,339.1	3,149.5
Europe	85.5	42.4	4.7	0.9	61.4	(7.9)
Rest of world	8.9	20.2	19.2	(0.1)	40.6	(5.5)
	878.5	838.0	317.9	325.8	3,441.1	3,136.1
Total						
– Group	872.9	829.2	318.1	327.8	3,441.1	3,134.4
– Joint ventures and associates	5.6	8.8	(0.2)	(2.0)	–	1.7
By geographical destination						
United Kingdom	785.0	774.5				
Europe	78.2	38.7				
Rest of world	15.3	24.8				
	878.5	838.0				
Total						
– Group	872.9	829.2				
– Joint ventures and associates	5.6	8.8				

^(a) Profit before interest in 2000 for the water supply and wastewater segment is stated after operating exceptional charges of £42.4 million (1999 – £36.2 million) and non-operating exceptional profits of £nil (1999 – £3.3 million). The International segment is stated after operating exceptional charges of £0.7 million (1999 – £0.2 million) and includes non-operating exceptional profits of £16.4 million (1999 – £2.2 million).

^(b) Net operating assets are shown before the deduction of net debt, dividends payable, Corporation Tax and Advance Corporation Tax of £1,625.0 million (1999 – £1,479.5 million).

^(c) The acquisition of SmVAK during the year described in note 17 relates to the International segment. This business contributed £17.8 million to turnover, £2.4 million to operating profit and £37.9 million to net operating assets.

^(d) Facilities Management represents the former UK Commercial business segment.

^(e) The acquisition of MVM Holdings Ltd and Structural Technologies Ltd during the year described in note 17 relates to the Facilities Management segment. The businesses contributed £3.1 million towards turnover, £1.0 million towards operating profit and £6.1 million towards net operating assets.

^(f) Intersegment trading relates principally to the International business £11.8 million, (1999 – £25.7 million) turnover and £2.2 million (1999 – £0.7 million) profit before interest and Facilities Management £26.5 million (1999 – £18.5 million) turnover.

^(g) The joint venture and associates results are primarily within the International segment.

	2000			1999		
	Before operating exceptional items £m	Operating exceptional items £m	Total £m	Before operating exceptional items £m	Operating exceptional items £m	Total £m
3 operating costs						
Operating costs excluding depreciation:						
Amortisation of intangible fixed assets	0.4	-	0.4	-	-	-
Raw materials and consumables	80.3	-	80.3	82.0	-	82.0
Other external charges	223.4	16.9	240.3	221.2	27.0	248.2
Staff costs (see note 12)	129.2	26.2	155.4	119.0	8.0	127.0
Change in stocks of finished goods and work in progress	6.8	-	6.8	(1.7)	-	(1.7)
Own work capitalised	(50.5)	-	(50.5)	(74.2)	-	(74.2)
Dividends receivable from investments	(0.6)	-	(0.6)	(0.5)	-	(0.5)
Profit on sale of fixed assets	-	-	-	(0.8)	-	(0.8)
Provision for diminution in value of investments	-	-	-	(1.5)	-	(1.5)
Contribution to Anglian Water Trust fund	2.0	-	2.0	2.0	-	2.0
Total operating costs excluding depreciation	391.0	43.1	434.1	345.5	35.0	380.5
Depreciation of tangible assets	142.6	-	142.6	130.3	1.4	131.7
Amortisation of deferred grants and contributions	(5.5)	-	(5.5)	(5.3)	-	(5.3)
Depreciation net of amortisation of grants and contributions	137.1	-	137.1	125.0	1.4	126.4
Total operating costs	528.1	43.1	571.2	470.5	36.4	506.9

Included in the analysis above are the following amounts relating to acquisitions in the period:

	SmVAK £m	Other Acquisitions £m	Total £m
Raw materials and consumables	4.3	-	4.3
Other external charges	2.6	0.8	3.4
Staff costs	4.3	0.9	5.2
Total operating costs excluding depreciation	11.2	1.7	12.9
Depreciation of tangible assets	4.2	0.4	4.6
Total operating costs	15.4	2.1	17.5

	2000 £m	1999 £m
4 exceptional operating costs		
Restructuring costs	38.0	18.9
Year 2000 costs	5.1	17.5
	43.1	36.4
Taxation credit thereon	8.1	2.1

The restructuring costs in the current year relate to redundancy costs, early retirement pension obligations and consultancy costs in respect of the reorganisation announced in May 1999. Further details are contained in note 24.

5 profit on disposal of businesses

In January 2000 the group completed the sale of its 50 per cent interest in AmericanAnglian Environmental Technologies to its joint venture partner American Waterworks Inc for cash consideration of £18.7 million giving a gain on disposal before tax of £16.0 million.

The group's shareholding of 9.9 per cent in Cambridge Water Plc was sold during the year for cash consideration of £2.8 million realising a gain on disposal of £0.4 million.

The profit on sale is derived as follows:

	2000 £m	1999 £m
Gain on disposal of share in joint venture	16.0	–
Gain on disposal of investment	0.4	–
Gain on disposal of subsidiary undertaking	–	18.4
Write back of goodwill previously eliminated against reserves	–	(16.2)
Profit on disposal	16.4	2.2

Further details are provided in the notes to the cash flow statement.

There is a tax charge of £6.0 million associated with the profit on the sale of the group's interest in AmericanAnglian Environmental Technologies.

The gain on disposal in 1999 arose from the sale of Fluid Systems to Koch Membrane Systems Inc. in June 1998.

6 profit on sale of fixed assets

	2000 £m	1999 £m
Consideration	–	3.4
Net book value	–	(0.1)
Profit on disposal	–	3.3

The profits in 1999 arose in relation to the group's programme for disposal of excess properties. There was no tax charge associated with this profit.

7 operating profit

Operating profit is stated after charging/(crediting):

	2000 £m	1999 £m
Dividends receivable from investments	(0.6)	(0.5)
Hire of plant and machinery	1.7	1.6
Other operating lease costs	2.0	3.9
Research and development expenditure	5.7	5.2
Fees paid to auditors:		
– for audit work (including £0.1 million in respect of the company (1999 – £0.1 million))	0.4	0.3
– for other work (including nil overseas (1999 – £0.1 million))	0.2	1.0

8 interest payable (net)

	2000 £m	1999 £m
Overdrafts and short-term borrowings	3.4	3.8
Other loans	108.4	91.3
Finance leases	14.1	14.4
	125.9	109.5
Interest receivable	(11.9)	(10.8)
	114.0	98.7

Interest payable on loans includes amortisation of discounts and expenses relating to debt issues and 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	2000 £m	1999 £m
	Tax on profit on ordinary activities comprises:		
	Corporation Tax at 30 per cent (1999–31 per cent)	31.8	44.3
	Overseas taxation	6.2	0.2
	Advance Corporation Tax		
	– write back on take up of scrip dividend alternative	–	(9.6)
	– previously written off but now recoverable	–	(31.5)
		<u>38.0</u>	<u>3.4</u>
	Analysed as:		
	– before exceptional items	40.1	5.5
	– exceptional items	(2.1)	(2.1)
	Total	<u>38.0</u>	<u>3.4</u>

The effective rate of Corporation Tax for the year is less than the stated 30 per cent due to excess capital allowances over depreciation for which no deferred taxation is provided (see note 25).

Overseas taxation for the current year includes £6.0 million arising from the profit on disposal of businesses (see note 5).

10	dividends	2000 £m	1999 £m
	Interim dividend nil (1999–12.8p) per ordinary share	–	34.7
	Proposed final dividend nil (1999–30.2p) per ordinary share	–	82.1
	Additional 1998 final dividend following exercise of warrants	–	1.9
	Total dividend on ordinary shares	–	118.7
	B share dividend 2.37p (1999–1.51p) per share (non equity)	0.3	0.2
		<u>0.3</u>	<u>118.9</u>

In order to bring forward the date when Anglian Water can begin to realise value for its surplus ACT of £158 million no cash dividend is being paid.

Redeemable shares were issued during the year on the basis of 12.8 pence per ordinary share, paid up out of the existing share premium account. It is proposed that a similar issue of redeemable shares will be made in place of the final dividend at the rate of 30.2 pence per ordinary share.

11	earnings per share	2000	1999
	Basic		
	Profit for the financial year	£164.8m	£223.7m
	Less: B share dividends	£(0.3)m	£(0.2)m
	Earnings attributable to ordinary shareholders	<u>£164.5m</u>	<u>£223.5m</u>
	Average number of shares in issue	272.1m	275.8m
	Basic earnings per share	<u>60.5p</u>	<u>81.0p</u>
	Basic (before exceptional items)		
	Basic earnings per share	60.5p	81.0p
	Exceptional items (after tax)	9.0p	10.5p
	Basic earnings per share (before exceptional items)	<u>69.5p</u>	<u>91.5p</u>
	Diluted		
	Earnings attributable to ordinary shareholders	£164.5m	£223.5m
	Average number of shares in issue	272.1m	275.8m
	Dilutive effect of options	0.7m	1.4m
	Dilutive effect of warrants	–	0.6m
	Average number of shares outstanding	<u>272.8m</u>	<u>277.8m</u>
	Diluted earnings per share	<u>60.3p</u>	<u>80.5p</u>

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.

	Before operating exceptional items £m	Operating exceptional items £m	2000 Total £m	Before operating exceptional items £m	Operating exceptional items £m	1999 Total £m
12 employee information						
Staff costs:						
Wages and salaries	110.1	11.9	122.0	104.5	3.1	107.6
Social security costs	12.7	–	12.7	10.3	–	10.3
Other pension costs	6.4	14.3	20.7	4.2	4.9	9.1
	129.2	26.2	155.4	119.0	8.0	127.0

Other pension costs are stated after crediting £6.8 million (1999 – £6.4 million) in respect of the amortisation of an actuarial surplus in the main UK pension scheme.

Average number of full time equivalent persons employed:

	2000	1999
Water and wastewater services	4,041	4,305
International	2,556	739
Facilities management	290	241
Other	12	12
	6,899	5,297

The numbers above include 2,356 full time equivalent persons employed outside the UK (1999 – 488).

Details of directors' emoluments and interests, which form part of these financial statements, are included in the remuneration report on pages 25 to 29.

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 £146.5 million (1999 – £378.3 million).

14 intangible fixed assets

	£m
The group	
Cost	
At 31 March 1999	0.7
Arising from acquisitions in the year (see note 17)	15.6
At 31 March 2000	16.3
Amortisation	
At 31 March 1999	–
Charge for the year	0.4
At 31 March 2000	0.4
Net book amount	
At 31 March 2000	15.9
At 31 March 1999	0.7

Intangible assets comprise goodwill arising on acquisitions of subsidiaries which is being amortised over 20 years.

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 1999	58.2	1,662.8	2,032.6	708.2	4,461.8
Exchange adjustments	(0.4)	(1.4)	(1.6)	(1.3)	(4.7)
Acquisition of subsidiary undertaking	6.6	22.0	25.7	18.8	73.1
Additions	5.2	131.7	72.7	187.8	397.4
Disposals	(5.8)	(3.2)	(4.6)	(8.5)	(22.1)
At 31 March 2000	63.8	1,811.9	2,124.8	905.0	4,905.5
Grants and contributions					
At 31 March 1999	–	122.8	–	–	122.8
Additions	–	9.7	–	–	9.7
At 31 March 2000	–	132.5	–	–	132.5
Depreciation					
At 31 March 1999	17.5	268.7	566.7	236.0	1,088.9
As previously reported					
Exchange adjustments	–	–	–	(0.3)	(0.3)
Charge for the year	5.4	17.0	25.0	95.2	142.6
Disposals	(0.3)	(0.3)	(4.6)	(4.1)	(9.3)
At 31 March 2000	22.6	285.4	587.1	326.8	1,221.9
Net book amount					
At 31 March 2000	41.2	1,394.0	1,537.7	578.2	3,551.1
At 31 March 1999	40.7	1,271.3	1,465.9	472.2	3,250.1

Tangible fixed assets of the group at 31 March 2000 include £387.2 million of assets in the course of construction (1999–£458.0 million) and also include land of £9.8 million (1999–£9.2 million) which is not subject to depreciation. The group's interests in land and buildings are almost entirely freehold.

The net book value of the group's tangible fixed assets held under finance leases at 31 March 2000 was £212.4 million (1999–£172.6 million). Depreciation charged on assets held under finance leases during the year ended 31 March 2000 amounted to £14.8 million (1999–£6.4 million).

	Freehold land and buildings £m
The company	
Cost	
At 31 March 1999	1.2
Transfer to other group company	(1.2)
At 31 March 2000	–
Depreciation	
At 31 March 1999	0.2
Transfer to other group company	(0.2)
At 31 March 2000	–
Net book amount	
At 31 March 2000	–
At 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 2000.

Amounts contracted for, but not provided for in the financial statement at 31 March 2000, are £66.1 million (1999–£236.0 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 1999	–	2.1	0.3	4.3	6.7
Additions	–	0.8	–	25.8	26.6
Share of losses	–	(0.2)	–	–	(0.2)
Disposal	–	(2.7)	(0.1)	(2.4)	(5.2)
At 31 March 2000	–	–	0.2	27.7	27.9
Loans					
At 31 March 1999	–	–	0.1	0.1	0.2
Additions	–	–	–	0.2	0.2
At 31 March 2000	–	–	0.1	0.3	0.4
Own shares					
At 31 March 1999 and 31 March 2000	0.4	–	–	–	0.4
Total					
At 31 March 2000	0.4	–	0.3	28.0	28.7
At 31 March 1999	0.4	2.1	0.4	4.4	7.3

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, holds 69,725 shares (1999 – 69,725) with an original cost of £0.4 million; these had a market value of £0.4 million at 31 March 2000 (1999 – £0.5 million).

Principal associated undertakings

Set out below is an analysis of the group's principal associated undertakings at 31 March 2000.

	Country of incorporation	Activity	Number of shares in issue	Nominal value of share capital in issue	% held	Class of share
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

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

Other investments

Other investments held by the group include:

- 28 per cent investment in the holding company, Aguas Puerto, which owns a 40.5 per cent stake in ESVAL, a privatised water and wastewater company in Chile;
- 4.35 per cent investment in Aguas Argentinas, a consortium which operates the water and wastewater system in Buenos Aires, Argentina.

16 investments (continued)

	Own shares £m	Cost £m	Provisions £m	Net book amount £m
The company				
Shares				
At 31 March 1999	–	891.6	(14.4)	877.2
Additions	–	34.2	–	34.2
Disposals	–	(2.4)	–	(2.4)
At 31 March 2000	–	923.4	(14.4)	909.0
Loans				
At 31 March 1999	–	867.0	(80.4)	786.6
Net movement during the year	–	365.1	–	365.1
At 31 March 2000	–	1,232.1	(80.4)	1,151.7
Own shares				
At 31 March 1999 and at 31 March 2000	0.4	–	–	0.4
Total				
At 31 March 2000	0.4	2,155.5	(94.8)	2,061.1
At 31 March 1999	0.4	1,758.6	(94.8)	1,664.2

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

17 acquisitions

During 1999/00 the group acquired 53.4 per cent of the issued share capital of Severomoravske Vodovody a Kanalizace Ostrava a.s. (SmVAK). SmVAK is located in Northern Moravia in the Czech Republic and provides water and wastewater services to 750,000 people. The acquisition was for cash consideration of £34.1 million. In November and December 1999 the company acquired the whole of the issued share capital of MVM Holdings Ltd, a data mapping business, and Structural Technologies Ltd, which provides asset management services. Total consideration was £19.2 million of which £7.2 million was paid in cash and £0.3 million of loan notes issued on completion of the transaction. A further £1.1 million has been paid into a retention account to be held against any breach of warranties. Maximum deferred consideration of £10.6 million is payable contingent upon the future profits of the businesses over the next three years, and is substantially payable at the end of the three year period. The directors are of the opinion that the full amount will become due, and hence this has been accrued in the accounts.

These acquisitions have been accounted for using the acquisition method.

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

	SmVAK		Other Acquisitions		Total
	Book value prior to acquisition £m	Accounting policy alignment note(i) £m	Provisional fair values note(ii) £m	Book and provisional fair values note(ii) £m	Provisional fair values £m
Fixed assets	113.7	(44.4)	69.3	3.8	73.1
Stocks	0.3	–	0.3	–	0.3
Debtors	3.7	(1.0)	2.7	1.8	4.5
Cash at bank	5.3	–	5.3	3.8	9.1
Short-term creditors	(4.1)	–	(4.1)	(3.5)	(7.6)
Long-term creditors	(9.6)	–	(9.6)	(2.3)	(11.9)
Provisions	(1.0)	1.0	–	–	–
	108.3	(44.4)	63.9	3.6	67.5
Less minority interest share of net assets acquired			(29.8)	–	(29.8)
Net assets acquired			34.1	3.6	37.7
Cash paid			34.1	7.2	41.3
Loan notes			–	0.3	0.3
Retention			–	1.1	1.1
Deferred consideration			–	10.6	10.6
Total consideration			34.1	19.2	53.3
Goodwill arising on acquisition			–	15.6	15.6

17 acquisitions (continued)

Note (i) The accounting policy alignments relate to the restatement of tangible fixed assets at depreciated replacement cost using the group's policies in respect of useful economic lives, an increase in the provision for doubtful debts to comply with the group's accounting policies and the elimination of a provision for future repair costs.

Note (ii) The fair values contain some provisional amounts which will be finalised in the 2001 financial statements when the detailed acquisition investigations have been completed.

In the last full financial year to 31 December 1998, SmVAK made a profit after tax of £2.2 million and in the period prior to acquisition in 1999 made a profit after tax of £0.6 million.

The other acquisitions made a profit after tax of £1.7 million in their last full accounting periods prior to acquisition. Summary results for their last full financial periods are shown below.

	SmVAK £m	Other acquisitions £m	Total £m
Turnover	17.8	8.3	26.1
Operating Profit	1.9	2.3	4.2
Profit before tax	2.5	2.2	4.7
Taxation	(0.3)	(0.5)	(0.8)
Profit attributable to shareholders	2.2	1.7	3.9

In the prior year, the group acquired an additional 56.2 per cent of the issued share capital of Vodovody A Kanalizace Jizni Cechy a.s., (VAKJC) a Czech Republic water and wastewater operator. This together with £3.5 million (34 per cent) paid in earlier years took the total investment to £7.6 million, representing a 90.2 per cent holding. A subsequent purchase of 4.2 per cent was made during May 1999 for a cash consideration of £0.3 million bringing the total shareholding to 94.4 per cent. These acquisitions have been accounted for using the acquisition method with no goodwill generated.

Also in the prior year the group acquired 100 per cent of the issued share capital of Calleva Limited, an internet vehicle leasing company for cash consideration of £0.5 million, of which £0.3 million is deferred. The goodwill arising was £0.7 million.

18 stocks

	Group	
	2000 £m	1999 £m
Raw materials and consumables	13.1	4.4
Work in progress	0.4	6.7
Finished goods	–	0.6
	13.5	11.7

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	
	2000 £m	1999 £m	2000 £m	1999 £m
Amounts falling due within one year				
Trade debtors	170.9	162.3	–	–
Amounts recoverable on contracts	23.0	20.1	–	–
Amounts owed by subsidiary undertakings	–	–	135.8	273.3
Advance Corporation Tax recoverable	0.7	2.6	26.4	29.6
Other debtors	26.3	16.8	1.2	2.3
Prepayments and accrued income	7.1	8.9	–	0.2
	228.0	210.7	163.4	305.4
Amounts falling due after more than one year				
Trade debtors	1.0	–	–	–
Amounts recoverable on contracts	5.2	0.8	–	–
Prepaid pension contributions	13.3	13.3	–	–
	247.5	224.8	163.4	305.4

ACT recoverable by the company of £26.4 million (1999 – £29.6 million) will be recovered by offset against mainstream Corporation Tax liabilities of group companies.

20 current asset investments

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Money market investments	7.5	50.0	–	50.0

Investments all mature within 12 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	
	2000 £m	1999 £m	2000 £m	1999 £m
Bank overdrafts	17.7	6.4	–	–
Current portion of long-term loans	43.9	47.1	18.3	0.9
Obligations under finance leases	28.4	12.3	–	–
Short-term borrowings	90.0	65.8	18.3	0.9
Trade creditors	118.9	117.5	–	–
Payments on account in excess of contract value	28.7	20.3	–	–
Receipts in advance	48.6	48.2	–	–
Advance Corporation Tax	–	0.9	–	–
Corporation tax	26.4	14.2	–	2.3
Other taxation and social security	3.6	3.4	0.7	0.7
Accruals and deferred income	81.7	45.9	38.9	22.2
Proposed dividends	–	117.0	–	117.0
Other creditors	307.9	367.4	39.6	142.2

22 loans, other borrowings and financial instruments

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Loans and other borrowings				
<i>Repayable wholly after five years</i>				
5½% Index Linked Loan Stock 2008 (a)	138.9	137.5	138.9	137.5
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	76.2	75.3
8¼% Fixed Rate Bonds 2006	149.3	149.2	149.3	149.2
6.625% Fixed Bond £200m 2023	196.5	196.4	196.5	196.4
6.375% Fixed Bond £200m 2029	198.5	198.5	198.5	198.5
€350m Bond 2023 (Interest at 6.57%)	229.2	–	229.2	–
US\$25m Private Placements 2009	15.5	–	15.5	–
US\$166m Private Placements 2012	98.5	98.4	98.5	98.4
	1,265.5	1,019.1	1,202.6	955.3
<i>Repayable by instalments, any of which is due for repayment after five years</i>				
European Investment Bank 2005 (Interest at 8.5%)	30.0	35.0	–	–
European Investment Bank 2007 (Interest at 7.38%)	6.4	7.2	–	–
European Investment Bank 2007 (Interest at 9.9%)	21.0	24.0	–	–
US\$10 million Private Placement (Interest at 6.71%)	3.7	4.7	3.7	4.7
Finance leases	238.7	221.5	–	–
Other borrowings (b)	22.7	23.2	–	–
	322.5	315.6	3.7	4.7

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

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
<i>Repayable wholly within five years</i>				
European Investment Bank 1999 (Interest at LIBOR minus 0.2%)	–	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%)	9.5	10.9	–	–
Hartlepool Water loan notes 2002 (Interest at LIBOR minus 1.0%)	2.6	2.8	2.6	2.8
1,000 million Czech Crown loan 2000 (Interest at 5.61%)	17.6	–	17.6	–
¥977 million loan 2003	5.4	–	–	–
Other loans (b)	1.4	1.7	–	0.3
	156.5	160.4	20.2	3.1
Total loans and other borrowings	1,744.5	1,495.1	1,226.5	963.1
Less amounts included in creditors falling due within one year	(72.3)	(59.4)	(18.3)	(0.9)
Loans and other borrowings falling due after more than one year	1,672.2	1,435.7	1,208.2	962.2

- (a) the value of the capital and interest elements of the Index Linked Loan Stock is linked to movements in the Retail Price Index. The increase in the capital value during the year of £1.4 million (1999 – £4.6 million) has been taken to the profit and loss account as part of interest payable.
- (b) of the unspecified loans and other borrowings, £21.9 million (1999 – £20.1 million) are at fixed rates and the remainder are at variable rates. Loans and other borrowings include £0.8 million (1999 – £ 0.9 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 19 to 21. 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 in the financial statements.

maturity analysis of financial liabilities

	Group	
	2000 £m	1999 £m
Less than one year	109.8	74.7
Between one and two years	95.8	35.9
Between two and five years	166.9	216.7
After five years	1,440.7	1,197.9
	1,813.2	1,525.2

Included above are amounts due under finance leases of £36.5 million (1999 – £22.8 million) payable within one year, £23.9 million (1999 – £18.1 million) payable between one and two years, £49.0 million (1999 – £46.6 million) payable between two and five years and £129.3 million (1999 – £134.0 million) payable after five years. The above maturity profile is determined by reference to the fixed dates on which the liability falls due.

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

	2000		1999	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Cash and deposits	155.6	155.6	101.4	101.4
Current asset investments	7.5	7.5	50.0	50.0
Short-term borrowings	(90.0)	(90.0)	(65.8)	(65.8)
Long-term borrowings	(1,654.7)	(1,853.7)	(1,436.3)	(1,709.0)
Currency and interest rate swaps	(17.5)	(34.2)	0.6	(15.4)
	(1,599.1)	(1,814.8)	(1,350.1)	(1,638.8)
Provisions	(34.2)	(34.2)	(25.3)	(25.3)
Other financial liabilities	(8.3)	(8.3)	(3.4)	(3.4)
B shares and redeemable shares (non-equity)	(8.5)	(8.5)	(6.0)	(6.0)
	(1,650.1)	(1,865.8)	(1,384.8)	(1,673.5)

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, the US\$166 million Private Placements 2012 and the €350 million bond 2009. The group has also entered into swap arrangements to hedge overseas investments. The \$25 million Private Placements 2009 and the ¥977 million loan 2003 are swapped to hedge investments in Chile. 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 six month LIBOR + 0.39 per cent, £5.5 million at a floating rate of six month LIBOR + 0.29 per cent, £229.2 million at a floating rate of three months LIBOR - 0.25 per cent, £15.5 million at a fixed rate of 6.57 per cent and £5.4 million at a fixed rate of 1.39 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 2000. The value at that date was determined by market interest rates, which fluctuate over time.

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

£2.9 million of the unrecognised losses in respect of interest rate swaps at 31 March 1999 of £15.4 million are included in the profit and loss account in 1999/00. Of the £34.2 million unrecognised losses at 31 March 2000, £5.9 million is expected to be included in the profit and loss account in the year 2000/01 and the balance in future years.

At 31 March 2000 and 31 March 1999, 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 2000

	Total £m	Index Linked £m	Floating rate £m	Fixed rate £m	Financial assets/ (liabilities) on which no interest is paid £m	Average interest rate	Average years to maturity
Sterling	(1,720.0)	(138.9)	(558.3)	(1,022.8)	–	7.7%	10.0
US dollar	(3.7)	–	–	(3.7)	–	6.7%	6.5
Rest of world	(38.5)	–	(17.6)	(20.9)	–	5.4%	6.2
Total borrowings	(1,762.2)	(138.9)	(575.9)	(1,047.4)	–		
Sterling	145.8	–	145.8	–	–		
Eurozone	5.1	–	5.1	–	–		
Rest of world	12.2	–	12.2	–	–		
Cash, deposits and current asset investments	163.1	–	163.1	–	–		
Net debt	(1,599.1)	(138.9)	(412.8)	(1,047.4)			
Provisions	(34.2)	–	–	–	(34.2)		
Other financial liabilities	(8.3)	–	–	–	(8.3)		
B shares and redeemable shares (non-equity)	(8.5)	–	(8.5)	–	–		
Net financial liabilities	(1,650.1)	(138.9)	(421.3)	(1,047.4)	(42.5)		

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 2000.

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:

	2000 £m	1999 £m
Expiring within one year	–	150.0
Expiring within one and two years	295.0	–
Expiring in more than two years	–	205.0
	295.0	355.0

23 **other creditors falling due after more than one year**

	Group	
	2000 £m	1999 £m
Trade creditors	8.3	3.4
Receipts in advance	–	–
Accruals and deferred income	0.1	–
Deferred grants and contributions	91.0	91.8
	99.4	95.2

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

24 provisions for liabilities and charges	Restructuring costs £m	Contract and other provisions £m	Total £m
The group			
At 31 March 1999	20.3	5.0	25.3
Charge for the year	38.0	0.1	38.1
Utilised in the year	(29.1)	(0.1)	(29.2)
At 31 March 2000	29.2	5.0	34.2

The provision for restructuring costs charged in the year relates to redundancy and other costs arising from the group restructuring announced in May 1999. The announcement anticipated that the restructuring would span the 1999/00 and 2000/01 financial years and that the principal cash flows would occur in these two years. Of the £29.2 million (1999 – £20.3 million) balance of restructuring costs, £20.4 million (1999 – £7.9 million) relates to unfunded pension enhancement liabilities. These pension payments, as indicated in the original formal plans announced to employees at the time of their retirement, are expected to be paid over several future accounting periods. The provision has been determined using actuarial assumptions based upon those used for the valuation of the group's pension schemes and has been discounted at a rate which reflects the group's cost of capital.

The contract and other provisions relate to potential warranty, certification, costs and other exposures in the international business which are expected to crystallise over a period of approximately three years. 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 2000. The group's full potential deferred taxation liability, calculated under the liability method at a tax rate of 30 per cent (1999 – 30 per cent), is:

	2000 £m	1999 £m
Accelerated capital allowances	607.6	577.9
Other timing differences	(20.5)	(15.9)
Available tax losses	(5.5)	(6.3)
Advance Corporation Tax	(157.9)	(157.9)
	423.7	397.8

26 commitments under operating leases

At 31 March 2000 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	0.5
Between one and five years	0.3	0.6
After five years	2.7	0.1
	3.1	1.2

The company had no such commitments.

notes to the financial statements continued

	2000 £m	1999 £m
27 share capital of Anglian Water Plc		
Authorised		
503.4 million ordinary shares of 47 ¹ / ₇ pence each	237.3	237.3
10.7 million B shares of 56 pence each	6.0	6.0
34,845.7 million redeemable shares of 0.1 pence each	34.8	–
	278.1	243.3
Allotted, issued and fully paid		
272.2 million ordinary shares of 47 ¹ / ₇ pence each	128.4	128.1
10.7 million B shares of 56 pence each	6.0	6.0
2,461.5 million redeemable shares of 0.1 pence each	2.5	–
	136.9	134.1

On 6 March 2000 34,845,672,960 redeemable shares of 0.1 pence nominal value each were issued to ordinary shareholders at the rate of 128 redeemable shares for every 1 ordinary share.

The holders of the redeemable shares are entitled, in priority, to any distribution to ordinary shareholders (but after any payment to the holders of B shares), to be paid a redeemable 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 the redeemable shares are not entitled to vote at any general meeting except if a resolution to wind up the company is to be considered.

Shareholders were given the opportunity by the company for these redeemable shares to be repurchased.

As a result 32,384,212,457 (92.9 per cent of the total issued) redeemable shares were repurchased for cash at a nominal value of 0.1 pence (£32.3 million in value) and cancelled by the company. 2,461,460,503 redeemable shares with a nominal value of 0.1 pence (£2.5 million in value) remain in issue. On 18 May 2000 the company notified the holders of the redeemable shares of its intention to repurchase those shares still outstanding on 19 June 2000 at par.

During the year 71,958 options were exercised under the executive share option scheme at an average price of £5.14, giving rise to a share premium of £0.3 million, and 445,230 options were exercised under the sharesave scheme at an average price of £4.14 giving rise to a share premium of £1.6 million. In addition, a further 825,708 options under the sharesave scheme lapsed during the year.

At 31 March 2000 the total number of ordinary shares under option was 4,425,311.

Further details are provided in the directors' report.

28 movement in total shareholders' funds

	Ordinary share capital £m	Class B preference shares £m	Redeemable shares £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	2000 Total £m	1999 Total £m
The group								
At beginning of year	128.1	6.0	–	79.0	186.4	1,256.2	1,655.7	1,582.5
Total recognised gains relating to the year	–	–	–	–	–	159.8	159.8	223.6
Dividends	–	–	–	–	–	(0.3)	(0.3)	(118.9)
Goodwill written back on disposal of subsidiaries	–	–	–	–	–	–	–	16.2
New share capital subscribed (see note 27)	0.3	–	34.8	(33.0)	–	–	2.1	72.4
New shares issued in relation to scrip dividend	–	–	–	–	–	–	–	38.5
Redemption of shares	–	–	(32.3)	(0.4)	32.7	(32.7)	(32.7)	(158.6)
At end of year	128.4	6.0	2.5	45.6	219.1	1,383.0	1,784.6	1,655.7

28 movement in total shareholders' funds (continued)

	Ordinary share capital £m	Class B preference shares £m	Redeemable shares £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	2000 Total £m	1999 Total £m
The company								
At beginning of year	128.1	6.0	–	79.0	186.4	530.5	930.0	718.3
Total recognised gains relating to the year	–	–	–	–	–	146.5	146.5	378.3
Dividends	–	–	–	–	–	–	–	(118.9)
New share capital subscribed (see note 27)	0.3	–	34.8	(33.0)	–	–	2.1	72.4
New shares issued in relation to scrip dividend	–	–	–	–	–	–	–	38.5
Redemption of shares	–	–	(32.3)	(0.4)	32.7	(32.7)	(32.7)	(158.6)
At end of year	128.4	6.0	2.5	45.6	219.1	644.3	1,045.9	930.0

Cumulative goodwill not yet taken to the profit and loss account amounts to £72.9 million (1999 – £57.7 million) of which £57.0 million (1999 – £57.0 million) has been eliminated directly against reserves as a matter of accounting policy.

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).

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:

	AWPS
Date of valuation	31 March 1999
Actuarial method	Projected unit
Main assumptions	
Excess of investment returns over:	
– general salary increases	2.75%
– dividend growth	3.65%
– annual increases in pensions	4.25%
Results	
Market value of assets	£494.7m
Funding level	143%

The next full actuarial valuation of the combined scheme will take place as at 30 September 2000.

The regular pension cost for the year ended 31 March 2000 was £10.4 million (1999 – £10.6 million) and included £0.1 million (1999 – £0.1 million) for overseas schemes. These costs were offset by a credit of £6.8 million (1999 – £6.4 million) in respect of the amortisation of actuarial surpluses in the Anglian Water Pension Scheme. At 31 March 2000 there was a prepayment in respect of pensions of £13.3 million (1999 – £13.3 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 £14.4 million (utilised), £46.4 million (unutilised) at 31 March 2000 (1999 – £4.6 million (utilised), £27.3 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 2000 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	
SmVAK as	Czech Republic	Water and wastewater treatment
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 Miljøteknologi 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
Anglian Water Direct	England	Internet shopping and services
MVM Holdings Ltd*	England	Data mapping
Structural Technologies Ltd	England	Asset management
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 SmVAK which is 53.4 per cent owned and VAKJC which is 94.4 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 May 2000 the group acquired 100 per cent of the shares of MKa Software Limited and Systemware Plc, which provide environmental health management systems software to local authorities. Total consideration payable of £4.5 million comprises cash of £3.4 million and a maximum earn-out based on future profits of £1.1 million, giving rise to provisional goodwill of £3.6 million which will be amortised over 20 years. The 10,673,483 B shares in issue at 31 March 2000 were redeemed and cancelled on 18 April 2000 for £6.0 million.

We have audited the financial statements on pages 32 to 56.

respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described on page 24, this includes the responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority 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 United Kingdom 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 22 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

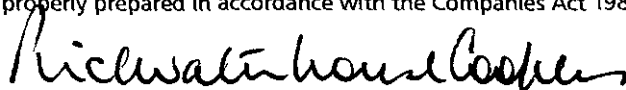
basis of audit opinion

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 2000 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
Chartered Accountants and
Registered Auditors
Temple Court
35 Bull Street
Birmingham
B4 6JT
31 May 2000

PRICEWATERHOUSECOOPERS 

group financial history

58 | Anglian Water Plc Annual Report and Accounts 2000

	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m
Profit and loss account					
Turnover					
Water supply and wastewater services	659.5	697.7	727.7	749.5	735.5
International	131.6	159.8	138.9	104.9	122.1
UK Commercial	–	6.9	18.2	29.4	61.5
Less intersegment trading	(15.2)	(22.2)	(28.0)	(45.8)	(40.6)
	775.9	842.2	856.8	838.0	878.5
Total					
–Group	775.7	837.1	850.1	829.2	872.9
–Joint ventures	0.2	5.1	6.7	8.8	5.6
Operating profit					
Water supply and wastewater services	298.9	311.3*	358.6	325.9*	298.8*
International	(5.7)	(24.9)§	(7.4)	(7.8)§	(4.0)§
UK Commercial	–	–	1.7	3.9	8.6
Other	0.5	–	(0.1)	0.2	0.4
Less intersegment trading	–	–	(0.8)	(1.9)	(2.3)
	293.7	286.4	352.0	320.3	301.5
(Loss)/profit on disposal of businesses	–	(8.2)	0.4	2.2	16.4
Profit on sale of fixed assets	1.2	–	6.0	3.3	–
Profit on ordinary activities before interest	294.9	278.2	358.4	325.8	317.9
Interest payable (net)	(56.3)	(70.2)	(84.2)	(98.7)	(114.0)
Profit on ordinary activities before taxation	238.6	208.0	274.2	227.1	203.9
Tax on profit on ordinary activities	(20.1)	(23.1)	(29.5)	(3.4)	(38.0)
Windfall tax on utilities	–	–	(131.8)	–	–
Profit on ordinary activities after taxation for the financial year	218.5	184.9	112.9	223.7	165.9
Payment to shareholders	30.0p	34.5p	39.0p	43.0p	43.0p
Earnings per ordinary share – basic	78.1p	68.6p	41.6p	81.0p	60.5p
Earnings per ordinary share before exceptional items	78.1p	86.8p	87.9p	91.5p	69.5p
Balance sheet					
Fixed assets	2,575.0	2,787.2	3,034.0	3,258.1	3,595.7
Net current liabilities†	(164.5)	(129.0)	(177.8)	(130.9)	(46.9)
Long-term liabilities	(88.3)	(103.7)	(106.7)	(95.2)	(99.4)
Provisions for liabilities and charges	(13.3)	(35.9)	(18.4)	(25.3)	(34.2)
Net borrowings	(831.8)	(938.6)	(1,148.6)	(1,350.1)	(1,599.1)
Capital employed	1,477.1	1,580.0	1,582.5	1,656.6	1,816.1

* After exceptional charges of £42.4 million in 2000, £36.2 million in 1999 and £22.0 million in 1997.

§ After exceptional charges of £0.7 million in 2000, £0.2 million in 1999 and £18.8 million in 1997.

† Excluding cash and deposits and short-term borrowings.

ordinary shares of 47¹/₇ pence each

Analysis of shareholdings	Number of holdings	%	Balance as at 31 March 2000	%
1-99	8,097	11.12	632,376	0.23
100-499	36,818	50.55	8,827,625	3.24
500-999	19,967	27.41	13,522,503	4.97
1,000-4,999	6,833	9.38	10,948,928	4.03
5,000-9,999	328	0.45	2,217,989	0.81
10,000-49,999	411	0.56	9,056,095	3.32
50,000-99,999	111	0.15	8,069,773	2.97
100,000-highest	276	0.38	218,967,232	80.43
	72,841	100	272,242,521	100

redeemable shares of 0.1 pence each

Analysis of shareholdings	Number of holdings	%	Balance as at 31 March 2000	%
1-99	0	0	0	0
100-499	63	0.20	13,312	0
500-999	34	0.10	21,712	0
1,000-4,999	736	2.28	1,783,552	0.07
5,000-9,999	692	2.14	5,101,328	0.21
10,000-49,999	19,034	58.91	416,354,376	16.92
50,000-99,999	6,854	21.21	456,435,571	18.54
100,000-highest	4,899	15.16	1,581,750,652	64.26
	32,312	100	2,461,460,503	100

Corporate bodies represent 89 per cent of the total share capital in terms of numbers of shares held.

redeemable shares

Share price on the first day of trading – 6 March 2000 = £0.001.

ordinary shares

Share price on the first day of trading following the issue of Redeemable Shares – 6 March 2000 = £4.52.

apportionment figures

For the calculation of Capital Gains Tax

Ordinary Shares	97.24613
Redeemable Shares (apportioned to the 128 Redeemable Shares)	2.753873

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, PO Box 3679, 54 Pershore Road South, Birmingham B22 1AH or telephone 0121 433 8000.

registered office

Anglian Water Plc, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ. Telephone 01480 323000.
www.anglianwater.co.uk

financial calendar

annual general meeting

26 July 2000

merchant bank

Schroder Salomon Smith Barney, 120 Cheapside, London EC2V 6HDS.

auditors

PricewaterhouseCoopers, Temple Court, 35 Bull Street, Birmingham B4 6JT.

solicitors

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

brokers

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


Dresdner Kleinwort Benson, PO Box 560, 20 Fenchurch Street, London EC3P 3DB.

registrars

Lloyds TSB Registrars, Registrar's Department, PO Box 3679, 54 Pershore Road South, Birmingham B22 1AH.

principal bankers

Barclays Bank Plc, 1 Market Hill, Huntingdon, Cambridgeshire PE29 3AE.



Anglian Water Plc
Anglian House, Ambury Road,
Huntingdon, Cambridgeshire,
PE29 3NZ United Kingdom

www.anglianwater.co.uk

Ref no. B270 6/00

Disability and Discrimination Act

Anglian Water shareholder communications are available in alternative formats in order to provide better access to information for those with disabilities. For more information on audio tape, braille and large print versions please call **0870 600 3953** or textphone, for shareholders with hearing difficulties **0870 600 3950**.

Anglian Water group publications

To receive a copy of any of these publications please call **Freephone 0800 919155**:
Annual Report and Accounts 2000, Summary Environmental and Community Report 2000,
Drinking Water Quality Summary Report 1999.