

Anglian Water Plc

Annual Report and Accounts 2001

Registered Number: 2366618



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COMPANIES HOUSE 08/09/01

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Anglian Water Plc

directors' report for the year ended 31 March 2001

The directors have pleasure in presenting their report and the audited financial statements of Anglian Water plc for the year ended 31 March 2001.

group re-organisation

During the year, the Anglian Water group underwent a major re-organisation through the introduction of a new parent company, awg plc, which was formed by a Scheme of Arrangement under Section 425 of the Companies Act 1985. Under the terms of the scheme, all of the shares in the company were cancelled. As a consequence, the share capital of Anglian Water Plc ceased to be listed on the London Stock Exchange 9 October 2000. Anglian Water Plc became a wholly owned subsidiary of awg plc.

principal activities, business review and future developments

The principal activities during the year were water supply and distribution, waste water collection and treatment, process engineering, construction, commercial, residential and infrastructure development and asset management.

results and dividends

The profit and loss account on page 7 shows the group's results and retained profit for the year.

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.

share capital

Details of Anglian Water Plc's share capital are shown in note 25 on page 35.

directors and directors' interest

The names of the directors who served during the year were as follows:

R M Gourlay	Resigned 10 October 2000
C J Mellor	
A T Eckford	
E M Mannis	
R.A. Pointer	
D J Challen	Resigned 10 October 2000
R W Jewson	Resigned 10 October 2000
J McKenna	Resigned 10 October 2000
E Morris	Resigned 10 October 2000
J B Cronin	Resigned 10 October 2000
S J O'Sullivan	Resigned 26 July 2000
Baroness Young of Old Scone	Resigned 25 October 2000

Beneficial and family interest in shares of Anglian Water Plc

	31 March 2001	31 March 2000
	Number of shares	Number of shares
R M Gourlay	-	2,011
C J Mellor	-	15,972
A T Eckford	-	2,720
E M Mannis	-	9,067
R A Pointer	-	14,694
D J Challen	-	964
R W Jewson	-	784
J McKenna	-	-
E Morris	-	4,000
J B Cronin	-	12,411
S J O'Sullivan	-	233
Baroness Young of Old Scone	-	1,086

**directors' report (continued)
for the year ended 31 March 2001**

directors' interests in shares and debentures

These beneficial interests in shares and options are the same as, and not in addition to, those disclosed in the annual report and accounts of awg plc, the ultimate parent company. Throughout this section of the directors' report, all interests in shares as at the 31 March 2001, are in relation to awg plc ordinary shares of 10 pence each. The figures as at 1 April 2000 are in respect of ordinary shares of 47 1/7 pence each in the share capital of Anglian Water Plc and have been given for comparative purposes. The interests of the directors in the shares of awg plc, and in options over such shares granted in that company's executive share option scheme are shown below.

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. No options have been granted under the executive share option scheme since 1996.

Sharesave scheme options	Options outstanding 1 April 2000	Options granted		Options exercised			Options outstanding as at 31 March 2001				
	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	5.65	3,709	-	-	-	-
C J Mellor	2,747	413	4.68	741	4.65	5.65	741	-	-	2,419	4.65
E M Mannis	2,232	-	-	-	-	-	-	-	-	2,232	4.34
A T Eckford	3,888	-	-	-	-	-	-	-	-	3,888	4.34
R A Pointer	3,117	1,241	4.68	2,225	4.65	5.65	2,225	-	-	2,133	4.65
Executive share options											
R A Pointer	16,805	-	-	6,387	3.70	5.35	10,569	-	-	10,418	5.375

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 awg plc's shares at 31 March 2001 was £5.7750 and the range during the year was £4.8025 to £5.7899. At 31 March 2001, and throughout the year Mr D J Challen held £24,000 of Anglian Water Plc's 5 1/8 per cent Index Linked Loan Stock 2008.

No director has an interest in the shares or debentures of the company other than as shown above. No director had during the year, or has, a material interest in any contract of significance to which the company or any of its subsidiaries is or was a party.

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 ⁽²⁾	FURBS compensation £000 ⁽³⁾	2000/2001 Total £000 ⁽⁴⁾	1999/2000 Total £000
R M Gourlay	133	10	-	155	298	156
C J Mellor	285	13	57	-	355	306
A T Eckford	190	14	38	136	378	211
E M Mannis	190	14	38	43	285	204
R A Pointer	180	10	34	-	224	189
D J Challen ⁽¹⁾	24	-	-	-	24	22
R W Jewson	33	-	-	-	33	32
J McKenna	29	-	-	-	29	5
J F de Moller (resigned 20 January 2000)	-	-	-	-	-	23
E Morris	24	-	-	-	24	4
J B Cronin	24	-	-	-	24	22
S J O'Sullivan (resigned 26 July 2000)	8	-	-	-	8	22
Baroness Young of Old Scone (resigned 25 October 2000)	17	-	-	-	17	27
	1,137	61	167	334	1,699	1,223
Contributions to defined benefit pension schemes					291	169
Gains on exercise of share options					17	1
					2,007	1,393

directors' report (continued) for the year ended 31 March 2001

directors' emoluments (continued)

- (1) Included within non-executive directors' fees are amounts totalling £24,000 paid to a third party for making available the services of Mr D J Challen.
- (2) 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 share of equivalent value to be held in trust for two years.
- (3) FURBS compensation relates to compensation paid to certain directors in relation to tax payable on the contributions made by the group over several accounting periods to their funded, unapproved retirement benefit schemes, as described in note 27 on page 37.
- (4) Executive directors also participate in the long-term incentive share scheme for which shareholder approval was obtained at the 2000 annual general meeting of Anglian Water Plc. A provision of £0.2 million (2000 - £0.1 million) is included in the accounts in respect of this scheme.

The pensions benefits of directors in the year to 31 March 2001 are summarised below in accordance with the Listing Rules of the Financial Services Authority (rounded to the nearest thousand pounds).

	At 31 March 2000					
	Accrued pension 2001	Increase in accrued pension 2001	Accrued pension lump sum 2001	Transfer value of increases 2001	Accrued pension	Accrued pension lump sum
	£000 ⁽¹⁾	£000 ⁽²⁾	£000 ⁽³⁾	£000 ⁽⁴⁾⁽⁵⁾	Total £000 ⁽¹⁾	Total £000 ⁽³⁾
R M Gourlay	34	4	-	74	29	-
C J Mellor	134	22	337	345	109	273
A T Eckford	30	10	-	127	20	-
R A Pointer	94	18	259	316	74	205
E M Mannis	15	7	-	52	7	-

- (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 increases has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less directors' contributions.
- (5) The 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 (FURBS). For the year 2000/2001 the company contributed to these schemes in respect of Mr R M Gourlay £108,789 (2000 - £31,262), in respect of Mr A T Eckford £55,974 (2000 - £31,161) and in respect of Mr E M Mannis £30,442 (2000 - £18,532). The value of the benefits attributable to these amounts is included in the table of pension benefits on page 37. A final top-up payment of £85,086 is included in the payment made by the company to Mr R M Gourlay's FURBS. This was to complete the funding of a defined benefit pension promise. No further contributions will be made to Mr R M Gourlay's FURBS.

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.

charitable and political donations

During the year the group made a payment of £1.5 million (2000 - £2.0 million) to the Anglian Water Trust Fund and other charitable donations £0.1 million (2000 - £0.1 million).

employees

Employees are kept informed on matters affecting them and made aware of general financial and economic factors influencing the group. The group operates a systematic approach to employee communication through regular briefings, presentations, electronic mailing and the wide circulation of the group newspaper.

Share Option Schemes in Anglian Water Plc's new holding company, awg plc, are in place to encourage participation in the company's and group's performance.

The group is an equal opportunities employer and applications from disabled persons are fully and fairly considered, having regard to the aptitude 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.

Anglian Water Plc

directors' report (continued) for the year ended 31 March 2001

auditors

PricewaterhouseCoopers have identified their willingness to continue in office and a resolution proposing their re-appointment will be put to the annual general meeting.

By order of the board



S Gillen

company secretary

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

Registered in England and Wales no. 2366618

31 August 2001

Anglian Water Plc

statement of directors' responsibilities for the year ended 31 March 2001

Company law requires the directors to prepare each financial year financial statements which give a true and fair view of the state of affairs of 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.

independent auditors' report to the members of Anglian Water Plc

We have audited the financial statements on pages 7 to 39.

respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 5, this includes 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 to 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.

basis of audit opinions

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 2001 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
Birmingham
31 August 2001



Anglian Water Plc

group profit and loss account for the year ended 31 March

		2001			2000		
		Before exceptional items and goodwill amortisation £m	Exceptional items and goodwill amortisation (note 4) £m	Total £m	Before Exceptional items and goodwill amortisation £m	Exceptional items and goodwill amortisation (note 4) £m	Total £m
notes							
	Turnover						
	Continuing operations:						
	Turnover: total group and share of joint ventures	882.2	-	882.2	878.5	-	878.5
	Less: share of turnover of joint ventures	-	-	-	(5.6)	-	(5.6)
		882.2	-	882.2	872.9	-	872.9
	Acquisitions:						
	Turnover: total group and share of joint ventures	405.7	-	405.7	-	-	-
	Less: share of turnover of joint ventures	(57.0)	-	(57.0)	-	-	-
		348.7	-	348.7	-	-	-
	Group turnover:						
2	Turnover: total group and share of joint ventures	1,287.9	-	1,287.9	878.5	-	878.5
2	Less: share of turnover of joint ventures	(57.0)	-	(57.0)	(5.6)	-	(5.6)
		1,230.9	-	1,230.9	872.9	-	872.9
4	Operating costs before depreciation and amortisation of goodwill	(757.4)	(13.3)	(770.7)	(390.6)	(43.1)	(433.7)
3	Depreciation net of amortisation of grants and contributions	(166.6)	-	(166.6)	(137.1)	-	(137.1)
12	Amortisation of goodwill	-	(8.3)	(8.3)	-	(0.4)	(0.4)
	Total operating costs	(924.0)	(21.6)	(945.6)	(527.7)	(43.5)	(571.2)
5	Operating profit/(loss):						
	Continuing operations	281.5	(13.2)	268.3	345.2	(43.5)	301.7
	Acquisitions	25.4	(8.4)	17.0	-	-	-
	Group operating profit/(loss):	306.9	(21.6)	285.3	345.2	(43.5)	301.7
	Share of operating profit/(loss) in						
	Joint ventures - continuing operations	-	-	-	(0.2)	-	(0.2)
	- acquisitions	5.3	-	5.3	-	-	-
	Associates - acquisitions	0.8	-	0.8	-	-	-
	Total operating profit/(loss): group and share of joint ventures and associates	313.0	(21.6)	291.4	345.0	(43.5)	301.5
4	Profit on disposal of businesses	-	-	-	-	16.4	16.4
4	Loss on sale of fixed assets	-	(2.7)	(2.7)	-	-	-
2	Profit/(loss) on ordinary activities before interest	313.0	(24.3)	288.7	345.0	(27.1)	317.9
6	Interest payable (net)	(159.1)	-	(159.1)	(114.0)	-	(114.0)
	Profit/(loss) on ordinary activities before taxation	153.9	(24.3)	129.6	231.0	(27.1)	203.9
7	Tax on profit on ordinary activities	(27.2)	0.9	(26.3)	(40.1)	2.1	(38.0)
	Profit/(loss) on ordinary activities after taxation	126.7	(23.4)	103.3	190.9	(25.0)	165.9
	Equity minority interest	(5.9)	-	(5.9)	(1.1)	-	(1.1)
	Profit/(loss) for the financial year	120.8	(23.4)	97.4	189.8	(25.0)	164.8
8	Dividends - including non-equity	(140.7)	-	(140.7)	(0.3)	-	(0.3)
	Retained (loss)/profit for the financial year	(19.9)	(23.4)	(43.3)	189.5	(25.0)	164.5
9	Earnings Per Share - basic	43.4p	8.4p	35.0p	69.6p	(9.1)p	60.5p
9	Earnings Per Share - diluted	-	-	34.9p	-	-	60.3p

The comparatives for 2000 have been restated to include goodwill amortisation and exceptional items.

Anglian Water Plc

statement of total recognised gains and losses for the year ended 31 March

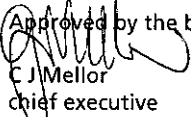
		Group	
note		2001 £m	2000 £m
26	Profit attributable to group shareholders	97.4	164.8
	Currency translation differences on foreign currency net investments	4.3	(5.0)
	Total recognised gains and losses	<u>101.7</u>	<u>159.8</u>

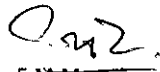
Anglian Water Plc

group and company balance sheet at 31 March

notes	Group		Company		
	2001 £m	2000 £m	2001 £m	2000 £m	
	Fixed assets				
12	Intangible assets	311.5	15.9	-	-
13	Tangible assets	3,961.5	3,551.1	-	-
14	Investments				
	Joint ventures:				
	- Share of gross assets	278.4	0.2	-	-
	- Share of gross liabilities	(263.2)	(0.2)	-	-
		15.2	-	-	-
	Associates	0.9	0.3	-	-
	Other investments	32.4	28.4	2,683.8	2,061.1
	Total investments	48.5	28.7	2,683.8	2,061.1
		4,321.5	3,595.7	2,683.8	2,061.1
	Current assets				
16	Stock and work in progress	169.0	13.5	-	-
17	Debtors	547.8	247.5	170.2	163.4
18	Investments	124.2	7.5	124.2	-
	Cash and deposits	173.6	155.6	49.4	87.5
		1,014.6	424.1	343.8	250.9
	Creditors: amounts falling due within one year				
19	Short-term borrowings	(723.9)	(90.0)	(455.3)	(18.3)
19	Other creditors	(594.8)	(307.9)	(58.8)	(39.6)
		(1,318.7)	(397.9)	(514.1)	(57.9)
	Net current (liabilities) / assets	(304.1)	26.2	(170.3)	193.0
	Total assets less current liabilities	4,017.4	3,621.9	2,513.5	2,254.1
	Creditors: amounts falling due after more than one year				
20	Loans and other borrowings	(1,962.4)	(1,672.2)	(1,434.3)	(1,208.2)
21	Other creditors	(106.3)	(99.4)	-	-
		(2,068.7)	(1,771.6)	(1,434.3)	(1,208.2)
22	Provisions for liabilities and charges	(36.7)	(34.2)	-	-
		1,912.0	1,816.1	1,079.2	1,045.9
	Capital and reserves				
25	Called up share capital	133.0	136.9	133.0	136.9
26	Share premium account	102.3	45.6	102.3	45.6
26	Capital redemption reserve	227.6	219.1	227.6	219.1
26	Profit and loss account	1,335.5	1,383.0	616.3	644.3
	Total shareholders' funds	1,798.4	1,784.6	1,079.2	1,045.9
	Equity minority interest	113.6	31.5	-	-
	Capital employed	1,912.0	1,816.1	1,079.2	-
	Analysed as:				
	Equity	1,912.0	1,807.6	1,079.2	1,037.4
	Non-equity	-	8.5	-	8.5
		1,912.0	1,816.1	1,079.2	1,045.9

The notes on pages 10 to 39 form part of these financial statements.

Approved by the board on 31 August 2001

 C J Mellor
 chief executive


 E M Mannis
 group finance director

Anglian Water Plc

group cash flow statement for the year ended 31 March

notes	2001 £m	2000 £m
a	349.4	463.9
	3.3	-
	29.8	12.8
	(145.2)	(106.1)
	(16.0)	(14.1)
	0.9	0.6
	-	(0.3)
	(130.5)	(107.1)
	(20.4)	(25.8)
	-	1.0
	(20.4)	(24.8)
	(328.1)	(375.0)
	14.7	9.7
	15.0	12.8
	(298.4)	(352.5)
	(6.6)	(26.6)
b	(374.6)	(33.6)
	0.8	21.5
	(380.4)	(38.7)
	(120.7)	(117.0)
	(56.7)	15.6
	(654.4)	(160.6)
	1.8	2.1
	(2.5)	(32.7)
	(6.0)	-
	832.9	266.9
d	(54.8)	(37.6)
	(51.5)	(21.7)
	719.9	177.0
d	65.5	16.4

notes to the group cash flow statement

(a) reconciliation of group operating profit to net cash inflow from group operating activities	2001	2000
	£m	£m
Group operating profit	285.3	301.7
Dividends received from trade investments	(0.9)	(0.6)
Depreciation (net of amortisation of deferred grants and contributions)	166.6	137.1
Amortisation of goodwill	8.3	0.4
Net movements on provisions	0.5	8.9
	459.8	447.5
(Increase) / decrease in working capital:		
Stock and work in progress	(76.4)	(1.9)
Debtors	(62.7)	(21.9)
Creditors	28.7	40.2
	(110.4)	16.4
net cash inflow from group operating activities	349.4	463.9

Included above are cash outflows of £2.3 million in respect of 2000/01 exceptional charges and £4.6 million in respect of prior year exceptional charges. The prior year comparative included cash outflows of £21.9 million in respect of prior year restructuring.

(b) acquisition of subsidiary undertakings	2001	2000
	£m	£m
Net assets / (liabilities) acquired:		
Fixed assets	268.5	73.1
Investments	21.5	-
Stock and work in progress	79.1	0.3
Debtors	237.4	4.5
Cash at bank	20.2	9.1
Short-term borrowings	(126.7)	-
Other short-term creditors	(221.5)	(19.5)
Loans and other borrowings	(84.7)	-
Other long-term creditors	(1.1)	-
Minority interests	(0.4)	-
Provisional fair value of net assets acquired (excluding net borrowings)	192.3	67.5
Less: minority interests / share of assets acquired	(93.6)	(29.8)
Net assets acquired	98.7	37.7
Goodwill	294.6	15.6
Net consideration	393.3	53.3
Satisfied by:		
Cash	262.4	41.3
Shares issued	59.5	-
Loan notes	68.1	0.3
Accrued consideration	2.1	-
Retention	-	1.1
Deferred consideration	1.2	10.6
	393.3	53.3
Net cash (inflow) / outflow in respect of subsidiary undertakings	2001	2000
	£m	£m
Total cash paid	262.4	42.4
- cash at bank of acquired subsidiary undertakings	(20.2)	(9.1)
- overdrafts of acquired subsidiary undertakings	126.6	-
Net outflow of cash in respect of the acquisition of the new subsidiary undertakings	368.8	33.3
Less: cash paid in previous year	(23.3)	-
Acquisition of additional shareholding in existing subsidiary undertaking	29.1	0.3
Net outflow of cash in respect of the acquisition of subsidiary undertakings	374.6	33.6

notes to the group cash flow statement (continued)

(c) analysis of net debt	31 March 2000	Cash flows	Acquisitions	Non-cash movement	Exchange movement	31 March 2001
	£m	£m	£m	£m	£m	£m
Cash	28.8	75.2	20.2	-	-	124.2
Bank overdrafts	(17.7)	96.7	(126.6)	-	-	(47.6)
	11.1	171.9	(106.4)	-	-	76.6
Deposits and investments	134.3	56.7	-	(17.4)	-	173.6
Debt due within 1 year	(72.3)	(553.9)	(0.1)	(50.0)	-	(676.3)
Debt due after 1 year	(1,672.2)	(172.7)	(152.8)	39.1	(3.8)	(1,962.4)
	(1,599.1)	(498.0)	(259.3)	(28.3)	(3.8)	(2,388.5)

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

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.

(d) movement in group net debt	2001	2000
	£m	£m
At beginning of year	(1,599.1)	(1,350.1)
Increase in cash	65.5	16.4
Increase in short-term bank deposits and investments	39.3	(15.6)
Loans assumed within subsidiary undertakings	(84.8)	-
Loan notes issued on the acquisition of subsidiary undertakings	(68.1)	-
Increase in loans and finance lease arrangements	(832.9)	(266.9)
Repayment of amounts borrowed	54.8	37.6
Non-cash finance lease inceptions	-	(38.9)
Indexation of loan stock	(10.7)	(1.4)
Amortisation of discount and expenses relating to debt issues	(0.2)	(0.3)
Exchange translation	(3.8)	(1.6)
Capital element of finance lease rental payments	51.5	21.7
At end of year	(2,388.5)	(1,599.1)

notes to the financial statements

1. accounting policies

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and in accordance with the Companies Act 1985, except as disclosed in note 1h. During the year the group was restructured and a new parent company, awg plc, was formed through a Scheme of Arrangement. The following principal accounting policies have been consistently applied:

a) **basis of consolidation**

The group accounts comprise a consolidation of the accounts of the company and all of its subsidiaries to 31 March. The results of companies acquired or disposed of are consolidated from the effective date of the acquisition or to the effective date of disposal. The treatment of a company as an associated undertaking has regard to the group's holding of at least 20 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 and operating profit of 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. Intra group sales and profit are eliminated fully on consolidation.

b) **goodwill**

On the acquisition of a subsidiary undertaking, fair values are attributed to the net identifiable 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 was not reinstated on implementation of Financial Reporting Standard No. 10 'Accounting for goodwill and intangible assets'. 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. A useful economic life of 20 years has been chosen for all acquisitions made to date. 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.

c) **associates and joint ventures**

The group's share of profit or loss of associates, turnover and profit or loss of joint ventures is included in the consolidated profit and loss account. The group's share of their net assets is included in the consolidated balance sheet. These amounts are taken from the latest audited financial statements of the undertakings concerned or from coterminous management accounts if the balance sheet date in those audited financial statements is greater than three months from the balance sheet date of the relevant group financial statements.

d) **unincorporated joint ventures**

The group share of turnover and profit/loss of unincorporated joint ventures is included in arriving at operating profit and its share of individual assets and liabilities is included, where appropriate, in the consolidated balance sheet.

e) **profit recognition policy**

i. *construction*

Profits on short term contracts are included in the financial statements upon substantial completion of those contracts. Profits on long term contracts are included in the financial statements when the outcome of a contract can be assessed with reasonable certainty and are determined by reference to an internal valuation of measured work carried out less related costs of production. Provision is made in full for foreseeable losses.

ii. *property development*

Profit is included in the financial statements in connection with property developments when a legally binding contract for the sale of the development has been entered into and legal completion has taken place before, or shortly after the year end. When legally binding contracts exist, profits on the construction and refurbishment elements of the development are determined on the same basis as for construction. Other profits arising from developments are included in the financial statements only when legal completion of the sale of development has been effected.

iii. *claims income*

In establishing turnover and profit, credit is taken for claims only when agreed in writing by the client, and thus expected to be recoverable. Having taken such claims to income, the position is monitored and provision is made whenever ultimate payment seems doubtful.

notes to the financial statements (continued)**1. accounting policies (continued)****f) 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.

g) 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 group's independently certified asset management plan.

Other assets (including properties, over ground 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.

h) 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 1985. 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 determinable 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 13. Revenue grants and contributions are credited to the profit and loss account in the year to which they apply.

i) 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.

j) investments

Investments held as fixed assets are stated at cost less any provision for impairment.

k) stock 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.

l) 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.

notes to the financial statements (continued)

1. accounting policies (continued)

m) 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 service lives of employees. 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.

n) research and development

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

o) foreign currencies

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

p) deferred taxation

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

q) financial instruments

The principal derivative instruments utilised by the group are currency and interest rate swaps which are stated 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.

notes to the financial statements (continued)

2. segmental analysis

	Turnover		Profit before interest		Net operating assets (a)	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
By class of business						
Water supply and wastewater services (b)	696.6	735.5	268.2	298.8	3,524.1	3,208.3
International (c)	186.8	122.1	7.0	12.4	483.1	171.2
Facilities Management (d)	89.9	61.5	15.9	8.6	91.8	65.2
Morrison (e)	363.2	-	6.7	-	257.4	-
Other (f)	-	-	(8.0)	0.4	(8.1)	(3.6)
Less intersegment trading (g)	(48.6)	(40.6)	(1.1)	(2.3)	-	-
	1,287.9	878.5	288.7	317.9	4,348.3	3,441.1
Total						
- Group	1,230.9	872.9	282.6	318.1	4,328.8	3,441.1
- Joint ventures and associates	57.0	5.6	6.1	(0.2)	19.5	-
By geographical origin						
United Kingdom	1,114.9	784.1	264.9	294.0	3,934.4	3,339.1
Europe	105.7	85.5	10.1	4.7	103.1	61.4
Rest of World	67.3	8.9	13.7	19.2	310.8	40.6
	1,287.9	878.5	288.7	317.9	4,348.3	3,441.1
By geographical destination						
United Kingdom	1,129.3	785.0				
Europe	85.7	78.2				
Rest of World	72.9	15.3				
	1,287.9	878.5				

- (a) Net operating assets are shown before the deduction of net debt, dividends payable, Corporation Tax and Advance Corporation Tax of £2,416.3 million (2000 - £1,625.0 million).
- (b) Profit before interest in 2001 for the water supply and wastewater segment is stated after operating exceptional charges of £12.5 million (2000 - £42.4 million) and a loss on disposal of fixed assets of £2.7 million (2000 - £nil).
- (c) The International segment is stated after operating exceptional charges of £0.3 million (2000 - £0.7 million) and includes a profit on disposal of businesses of £nil (2000 - £16.4 million). Amortisation of goodwill of £1.8 million has been deducted from the International segment.
- The acquisition of Aguas Peurto S.A. during the year (as described in note 15) relates to the International segment. The business contributed £40.7 million to turnover and £15.7 million to profit before interest (after goodwill amortisation and exceptionals), and £309.5 million to net operating assets.
- (d) The Facilities Management segment is stated after amortisation of goodwill of £0.8 million (2000 - £0.4 million).
- (e) The Morrison segment is stated after operating exceptional charges of £0.5 million, and amortisation of goodwill of £5.7 million. The acquisition of Morrison plc during the year is described in note 15.
- (f) The Other segment comprises restructuring, transaction support costs and other head office charges.
- (g) Intersegment trading relates principally to:
- the International business £19.5 million (2000 - £11.8 million) turnover and £1.1 million (2000 - £2.2 million) profit before interest; and
 - the Facilities Management business £24.6 million (2000 - £26.5 million) turnover
- (h) The joint venture and associates results are mainly within the Morrison segment in 2001. In 2000 they were mainly in the International segment.

notes to the financial statements (continued)

3. operating costs

	2001			2000		
	Before exceptional items and goodwill amortisation £m	Exceptional items and goodwill amortisation £m	2001 Total £m	Before exceptional items and goodwill amortisation £m	Exceptional items and goodwill amortisation £m	2000 Total £m
Operating costs excluding depreciation:						
Amortisation of intangible fixed assets	-	8.3	8.3	-	0.4	0.4
Raw materials and consumables	166.3	-	166.3	80.3	-	80.3
Other external charges	537.9	6.2	544.1	223.4	16.9	240.3
Staff costs (note 10)	180.8	7.1	187.9	129.2	26.2	155.4
Change in stock of finished goods and work in progress	(95.3)	-	(95.3)	6.8	-	6.8
Own work capitalised	(32.9)	-	(32.9)	(50.5)	-	(50.5)
Dividends receivable from investments	(0.9)	-	(0.9)	(0.6)	-	(0.6)
Contribution to Anglian Water Trust fund	1.5	-	1.5	2.0	-	2.0
Total operating costs (excluding depreciation)	757.4	21.6	779.0	390.6	43.5	434.1
Depreciation of tangible assets	172.4	-	172.4	142.6	-	142.6
Amortisation of deferred grants and contributions	(5.8)	-	(5.8)	(5.5)	-	(5.5)
Depreciation net of amortisation of grants and contributions	166.6	-	166.6	137.1	-	137.1
Total operating costs	924.0	21.6	945.6	527.7	43.5	571.2

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

	Morrison £m	Aguas Puerto consolidated £m	Other acquisitions £m	Total £m
Amortisation of intangible fixed assets	5.7	1.8	0.3	7.8
Raw materials and consumables	89.4	0.3	1.9	91.6
Other external charges	209.5	11.7	0.7	221.9
Staff costs	59.5	4.3	2.0	65.8
Change in stocks of finished goods and work in progress	(61.3)	-	0.1	(61.2)
	302.8	18.1	5.0	325.9
Depreciation of tangible fixed assets	2.3	6.8	0.3	9.4
Exceptional items	0.5	0.1	-	0.6
Total operating costs	305.6	25.0	5.3	335.9

4. exceptional costs

	2001 £m	2000 £m
Restructuring costs	13.3	38.0
Year 2000 costs	-	5.1
Charged against operating profit	13.3	43.1
Profit on disposal of shares in joint ventures	-	(16.0)
Profit on disposal of investments	-	(0.4)
Loss on sale of fixed assets	2.7	-
	16.0	26.7
Taxation credit thereon (note 7)	0.9	2.1

notes to the financial statements (continued)

4. exceptional costs (continued)

In May 1999 the group announced a reorganisation. The redundancy costs identified at this time, together with related unfunded early retirement pension obligations and consultancy costs, were charged during the year ended 31 March 2000. A final tranche of this programme was announced and the additional costs were charged in the year ended 31 March 2001.

The gain on disposal in 2000 arose from:

- the sale of the group's 50 per cent interest in American Anglian Environmental Technologies to its joint venture partner American Waterworks Inc.
- the sale of the group's 9.9 per cent holding in Cambridge Water Plc.

The loss on sale of fixed assets in 2001 arose in respect of the sale of land in Cambridge.

5. operating profit

	2001	2000
	£m	£m
Operating profit is stated after charging:		
Hire of plant and machinery	20.1	1.7
Other operating lease costs	9.4	2.0
Research and development expenditure	5.3	5.7
Fees paid to the auditors:		
- for audit work (including £nil in respect of the company (2000 - £0.1m))	0.6	0.4
- for other work (all in the United Kingdom)	0.4	0.2

6. interest payable (net)

	2001	2000
	£m	£m
Overdrafts and short-term borrowings	9.2	3.4
Other loans including financing expenses	158.1	108.4
Finance leases	16.0	14.1
Amortisation of discount on long-term provisions	2.0	-
	185.3	125.9
Interest receivable	(29.1)	(11.9)
Group interest payable	156.2	114.0
Share of joint venture interest payable (net)	2.9	-
Total interest payable (net)	159.1	114.0

7. taxation

	2001	2000
	£m	£m
Tax on profit on ordinary activities comprises:		
Corporation Tax at 30 per cent (2000 - 30 per cent)	28.9	31.8
Overseas taxation	1.8	6.2
Advance Corporation Tax		
- previously written off now recoverable	(6.0)	-
Group taxation	24.7	38.0
Share of joint ventures taxation	1.3	-
Share of associates taxation	0.3	-
Total taxation	26.3	38.0
Analysed as:		
- before exceptional items	27.2	40.1
- exceptional items (note 4)	(0.9)	(2.1)
Total	26.3	38.0

As in the prior year, 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.

Overseas tax in 2000 includes a £6.0 million charge on profit on disposal of business.

Notes to the financial statements (continued)

8. dividends

On ordinary shares:

Final dividend in respect of the year ended 31 March 2000
 Interim dividend in respect of the year ended 31 March 2001
 Total dividend on ordinary shares
 B Share dividend of 2.37 pence paid in prior year (non equity)

2001 £m	2000 £m
103.5	-
37.2	-
140.7	-
-	0.3
140.7	0.3

The B shares were redeemed and cancelled on 18 April 2000.

During the year ended 31 March 2000 a dividend of 2.37 pence amounting to £0.3 million was paid on the B shares issued by Anglian Water Plc. These shares were redeemed during the year ended 31 March 2001. No dividends were paid on the B shares during the year ended 31 March 2001.

During the year ended 31 March 2001 a dividend of £140.7m was paid to the holding company awg plc. No dividends were paid in year ended 31 March 2000.

9. earnings per share

basic

Profit for the financial year
 Less: B share dividends
 Earnings attributable to ordinary shareholders
 Average number of shares in issue
 Basic earnings per share

2001	2000
£97.4m	£164.8m
-	£(0.3)m
£97.4m	£164.5m
278.1m	272.1m
35.0p	60.5p

basic (before exceptional items)

Basic earnings per share
 Exceptional items (after tax)
 Basic earnings per share (before exceptional items)

35.0p	60.5p
8.4p	9.0p
43.4p	69.5p

Goodwill amortisation

Basic earnings per share (before exceptional items and goodwill amortisation)

3.0p	0.1p
46.4p	69.6p

diluted

Earnings attributable to ordinary shareholders
 Average number of shares in issue
 Dilutive effect of options
 Average number of shares outstanding

£97.4m	£164.5m
278.1m	272.1m
0.9m	0.7m
279.0m	272.8m

Diluted earnings per share

34.9p	60.3p
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Basic earnings per share before exceptional items, and goodwill amortisation, is disclosed as the directors consider it to be an appropriate reflection of the group's underlying earnings performance.

notes to the financial statements (continued)

10. employee information

	Before operating exceptional items £m	Operating exceptional items £m	2001 Total £m	Before operating exceptional items £m	Operating exceptional items £m	2000 Total £m
Staff costs:						
Wages and salaries	157.1	2.8	159.9	110.1	11.9	122.0
Social security costs	20.1	-	20.1	12.7	-	12.7
Pension costs	3.6	4.3	7.9	6.4	14.3	20.7
	180.8	7.1	187.9	129.2	26.2	155.4

Pension costs are stated after crediting £13.1 million (2000 - £6.8 million) in respect of the amortisation of an actuarial surplus in the main UK pension scheme.

	2001	2000
Average number of full time equivalent persons employed:		
Water and wastewater services	3,797	4,041
International	3,409	2,556
Facilities Management	417	290
Morrison	4,054	-
Other	11	12
	11,688	6,899

The numbers above include 3,344 full time equivalent persons employed outside the UK (2000 - 2,356). Details of directors' emoluments and interests, which form part of these financial statements, are included in the directors report.

11. profit of parent company

Anglian Water Plc has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. Profit for the financial year dealt with in the accounts of the parent company is £121.2 million (2000 - £146.5 million).

12. intangible fixed assets

The group

	£m
Cost	
At 31 March 2000	16.3
Exchange adjustments	(1.9)
Arising from acquisitions in the year (note 15)	305.8
At 31 March 2001	320.2
Amortisation	
At 31 March 2000	0.4
Charge for the year	8.3
At 31 March 2001	8.7
Net book amount	
At 31 March 2001	311.5
At 31 March 2000	15.9

Intangible assets comprise goodwill arising on acquisitions of subsidiaries which is being amortised over 20 years, which is the directors' best estimate of its useful economic life.

There are no intangible assets in the company.

Notes to the financial statements (continued)

13. 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 2000	63.8	1,811.9	2,124.8	905.0	4,905.5
Exchange adjustments	6.7	1.8	4.6	1.7	14.8
Acquisition of subsidiary undertakings	11.7	0.6	219.9	36.3	268.5
Additions	25.3	75.2	48.6	173.3	322.4
Disposals	(3.1)	-	-	(29.7)	(32.8)
At 31 March 2001	104.4	1,889.5	2,397.9	1,086.6	5,478.4
Grants and contributions					
At 31 March 2000	-	132.5	-	-	132.5
Additions	-	4.7	-	-	4.7
At 31 March 2001	-	137.2	-	-	137.2
Depreciation					
At 31 March 2000	22.6	285.4	587.1	326.8	1,221.9
Exchange adjustments	0.1	0.1	0.2	0.1	0.5
Charge for the year	8.4	20.8	32.2	111.0	172.4
Disposals	(0.8)	(0.4)	(0.4)	(13.5)	(15.1)
At 31 March 2001	30.3	305.9	619.1	424.4	1,379.7
Net book amount					
At 31 March 2001	74.1	1,446.4	1,778.8	662.2	3,961.5
At 31 March 2000	41.2	1,394.0	1,537.7	578.2	3,551.1

Tangible fixed assets of the group at 31 March 2001 include £294.2 million of assets in the course of construction (2000 - £387.2 million) and also include land of £15.6 million (2000 - £9.8 million) which is not subject to depreciation. The group's interest 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 2001 was £190.3 million (2000 - £212.4 million). Depreciation charged on assets held under finance leases during the year ended 31 March 2001 amounted to £19.7 million (2000 - £14.8 million).

Included within the amounts shown above for vehicles, plant and equipment are assets held as lessor for use in operating leases with a cost of £87.9 million (2000 - £72.2 million) and accumulated depreciation of £23.3 million (2000 - £15.6 million).

There are no tangible fixed assets in the company.

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 2001.

Amounts contracted for but not provided for in the financial statements at 31 March 2001 are £75.9 million (2000 - £66.1 million). There are no such commitments in the company.

notes to the financial statements (continued)

14. investments

	Joint ventures £m	Associated undertakings £m	Other Investments £m	Own Shares £m	Total £m
The group					
Shares at cost or amount under equity method of accounting					
At 31 March 2000	-	0.2	27.7	-	27.9
Acquisition of subsidiary undertakings	16.2	1.9	3.3	-	21.4
Additions	-	-	24.0	-	24.0
Retained loss for the year	(0.9)	(0.6)	-	-	(1.5)
Disposals	(0.1)	(0.7)	(23.3)	-	(24.1)
At 31 March 2001	15.2	0.8	31.7	-	47.7
Loans					
At 31 March 2001 and 31 March 2000	-	0.1	0.3	-	0.4
Own Shares					
At 31 March 2000	-	-	-	0.4	0.4
Exchanged	-	-	0.4	(0.4)	-
At 31 March 2001	-	-	0.4	-	0.4
Total					
At 31 March 2001	15.2	0.9	32.4	-	48.5
At 31 March 2000	-	0.3	28.0	0.4	28.7

own shares and exchange of own shares

Anglian Water LTIP Ltd (LTIP) was established with the purpose of holding shares in Anglian Water Plc for subsequent transfer to executive directors and certain senior management under the long-term incentive plan. As a consequence of the formation of awg plc the Anglian Water Plc shares held by LTIP were exchanged for awg plc shares during the year on a one for one basis. At 31 March 2001 LTIP held 69,725 shares in awg plc (2000 - 69,725 shares in Anglian Water Plc) with an original cost of £0.4 million; these had a market value of £0.4 million (2000 - £0.4 million), and have been shown above as movement between own shares and other investments.

principal associated undertakings

Set out below is an analysis of the group's principal associated undertakings at 31 March 2001.

	Country of incorporation	Activity	Class of share	Proportion of shares held	Accounting year end
All Asia Anglian	Philippines	Water and waste water services	Ordinary 1 peso	40%	31 December
Strathclyde Business Park (Developments) Limited	Scotland	Development of land and buildings	Ordinary £1	31%	28 February

These undertakings principally operate in their country of incorporation and are held by subsidiaries of Anglian Water Plc.

notes to the financial statements (continued)

14. investments (continued)

joint ventures

Set out below is an analysis of the group's principal joint ventures at 31 March 2001.

Undertaking note (i)	Country of incorporation	Activity	Proportion of shares held note (ii)
Morrison Property Solutions (Birmingham Childrens Hospital) Limited	England	Development of land and buildings	50%
Morrison Residential Assets Limited	Scotland	Residential properties	50%
Belgrave Residential Investments Limited	Scotland	Residential properties	50%
Morrison Properties Limited	Scotland	Residential properties	50%
Morrison Edison Investments Limited	Scotland	Development of land and buildings	50%
Morrison Merlin Great Northern Limited	Scotland	Development of land and buildings	47%
Northwood Residential Limited	Ireland	Residential properties	40%
Danesfort Developments Limited	Northern Ireland	Residential properties	50%

These undertakings principally operate in their country of incorporation, and are held by subsidiaries of Anglian Water Plc.

Note (i) The accounting year end for all the above undertakings is 31 March, with the exception of Morrison Property Solutions (Birmingham Childrens Hospital) Limited, which has an accounting year end of 31 December.

Note (ii) The class of shares held are ordinary shares of £1 each.

other investments

Other investments in the group include a 4.35 per cent investment in Aguas Argentinas, a consortium which operates the water and wastewater system in Buenos Aires, Argentina, and a long-term deposit of US\$ 25 million 2009. The long-term deposit of US\$ 25 million 2009 is to mirror loans in Anglian Water International Holdings Limited y Compania Limitada

notes to the financial statements (continued)

14. investments (continued)

The principal subsidiary undertakings of the group are listed in note 30.

	Other	Subsidiary Undertakings		Total £m
	Investments £m	Cost £m	Provisions £m	
The company				
Shares				
At 31 March 2000	-	923.4	(14.4)	909.0
Additions	-	268.6	-	268.6
Disposal to other group companies	-	(32.8)	-	(32.8)
At 31 March 2001	-	1,159.2	(14.4)	1,144.8
Loans				
At 31 March 2000	-	1,232.1	(80.4)	1,151.7
New loans during the year	-	412.0	(25.2)	386.8
At 31 March 2001	-	1,644.1	(105.6)	1,538.5
Other Investments				
Additions	0.1	-	-	0.1
Exchanged	0.4	-	-	0.4
At 31 March 2001	0.5	-	-	0.5
Own Shares				
At 31 March 2000	0.4	-	-	0.4
Exchanged	(0.4)	-	-	(0.4)
At 31 March 2001	-	-	-	-
Total				
At 31 March 2001	0.5	2,803.3	(120.0)	2,683.8
At 31 March 2000	0.4	2,155.5	(94.8)	2,061.1

15. acquisitions

All acquisitions during the year have been accounted for using the acquisition method of accounting.

Morrison plc

The group announced its offer for Morrison plc on 25 August 2000. The offer was declared unconditional on 21 September 2000, and hence this has been deemed the effective date of acquisition. The acquisition was for total consideration of £268.6 million, including acquisition costs and stamp duty of £5.4 million.

The offer to Morrison shareholders was for cash but also included partial share and loan note alternatives. Under the partial share alternative, Morrison shareholders could elect to receive up to half of their consideration in the form of new Anglian Water Plc shares. Under the loan note alternative, Morrison shareholders could elect to receive part or all of their consideration in the form of loan notes with a redemption date of 30 September 2007. These loan notes are unsecured and bear interest in arrears based on LIBID minus 0.5 per cent.

notes to the financial statements (continued)

15. acquisitions (continued)

The provisional fair value table is shown below:

	Book value prior to acquisition	Revaluation adjustments note (i)	Accounting policy alignments note (ii)	Provisional fair values
	£m	£m	£m	£m
Fixed assets	17.2	-	-	17.2
Investments	23.5	(2.1)	-	21.4
Stock and work in progress	109.3	(24.0)	(6.4)	78.9
Debtors	217.8	4.6	-	222.4
Cash at bank	11.4	-	-	11.4
Short-term borrowings	(125.5)	-	-	(125.5)
Other short-term creditors	(197.3)	5.0	-	(192.3)
Minority interests	(0.4)	-	-	(0.4)
	56.0	(16.5)	(6.4)	33.1
Cash paid				144.4
Loan notes issued				64.7
Shares issued				59.5
Total consideration				268.6
Goodwill arising on acquisition				235.5

Goodwill amortised in the year on this acquisition amounts to £5.7 million.

Note (i) The revaluation adjustments relate to:

Investments

- (a) a provision of £2.1 million against the carrying value of certain international joint ventures in territories where the business relationships with the joint venture partners had broken down at the acquisition date.

Stock and work in progress:

- (a) a provision of £28.3 million against the carrying value of work in progress, to write it down to its estimated recoverable amount, principally based on independent valuations performed as at the acquisition date;
- (b) a provision of £5.2 million in respect of onerous contractual obligations existing at the acquisition date at several factory outlet sites;
- (c) the recognition of contingent assets of £9.5 million in respect of legally binding back-to-back agreements entered into prior to the acquisition date, to buy and sell land.

Debtors:

- (a) additional provisions of £1.9 million against the carrying value of debtors which are not considered recoverable;
- (b) reversal of abated profits of £6.5 million representing the investors' share of the profits on land sales to joint ventures previously eliminated by Morrison as required by Financial Reporting Standard No. 9 'Associates and Joint Ventures'. These profits effectively represent the additional value inherent in certain pieces of land formerly owned by Morrison, and will be realised on subsequent sale of the land by the joint venture companies concerned.

Other short-term creditors:

- (a) the recognition of anticipated claims income on long-term contracts of £5.0 million being a reasonable estimate of the likely outcome of these contingent assets based on legal advice and claims experience to date.

Note (ii) The accounting policy alignments of £6.4 million relate to the elimination of overhead recovery on management fees charged to joint venture companies.

The pension scheme has been revalued on an AWG basis but the actuarial surplus was not material and no adjustment has been made.

impact on the cash flow statement

Save as already disclosed, the acquisition of Morrison has had the following impact on the group cash flow statement:

notes to the financial statements (continued)

15. acquisitions (continued)

	<u>£m</u>
Net cash outflow from operating activities	(59.1)
Dividends received from joint ventures	3.3
Returns on investments and servicing of finance	(4.0)
Taxation	(2.9)
Capital expenditure	(4.4)
Acquisitions and disposals	0.4
Financing	0.6
Decrease in cash	<u>(66.1)</u>

Summary results for previous financial periods are shown below:

	1 April 2000 to date of acquisition £m	Year ended 31 March 2000 £m
Turnover	258.2	509.8
Operating (loss)/profit	(33.8)	28.7
(Loss)/profit before tax	(36.2)	26.8
Taxation	7.4	(8.0)
Minority interests	-	(0.2)
(Loss)/profit after tax and minority interests	<u>(28.8)</u>	<u>18.6</u>

The pre-acquisition results as above are stated on the basis of their accounting policies prior to the acquisition.

Aguas Puerto S.A. and ESVAL S.A.

At 1 April 2000 the group owned an effective 11 per cent interest in Empresa de Obras Sanitarias de Valparaiso S.A. (ESVAL), a Chilean company, through its 28 per cent shareholding in Aguas Puerto S.A. (Aguas Puerto). Consideration paid (in the prior year) totalled £23.3 million.

On 4 August, the group became the 100 per cent owner of Aguas Puerto after buying the remaining 72 per cent of the share capital from its former partner. In doing so, the group acquired an effective 40.6 per cent stake in ESVAL. At this level of shareholding the group is able to exert dominant influence under the current management arrangement and hence ESVAL has been accounted for as a subsidiary from this date. Goodwill of £49.6 million arose in respect of this tranche of the acquisition as set out in the provisional fair value table below.

During November 2000 ESVAL made a rights issue, to which Aguas Puerto subscribed. The group also purchased lapsed rights in the market in that month, taking its share holding to 45.3 per cent. In December 2000 the group acquired additional shares in the market, increasing its share holding to 49.8 per cent.

The additional consideration paid totalled £29.1 million, giving rise to additional goodwill of £11.2 million. No material changes to the fair value of the assets occurred between August 2000 and December 2000.

The provisional fair value table is set out below:

notes to the financial statements (continued)

15. acquisitions (continued)

Aguas Puerto (consolidated)

	Book value prior to acquisition	Revaluation adjustments note (i)	Accounting policy alignments note (ii)	Provisional fair values
	£m	£m	£m	£m
Intangible assets	2.5	-	(2.5)	-
Fixed assets	243.2	5.2	-	248.4
Stock and work in progress	0.2	-	-	0.2
Debtors	20.5	-	(7.3)	13.2
Cash and deposits	3.0	-	4.4	7.4
Short term borrowings	(1.1)	-	-	(1.1)
Other short-term creditors	(27.8)	-	0.2	(27.6)
Loans and other borrowings	(88.6)	2.2	1.7	(84.7)
Provisions	(2.2)	-	2.2	-
	<u>149.7</u>	<u>7.4</u>	<u>(1.3)</u>	<u>155.8</u>
Less minority interest in ESVAL			59.4%	(92.5)
Share of net assets acquired			40.6%	<u>63.3</u>
Total consideration paid as cash				<u>112.9</u>
Goodwill arising on acquisition				<u>49.6</u>

Goodwill amortised in the year on this acquisition amounts to £1.8 million.

Note (i) The revaluation adjustments relate to the revaluation of tangible fixed assets at their depreciated replacement cost and of loans at their fair value.

Note (ii) The accounting policy alignments relate to:

- (a) The expensing of £2.5 million intangible assets for which there were no separable income streams.
- (b) The reduction in debtors of £1.2 million relating to the expensing of irrecoverable installation costs for water meters and the marking to market of foreign exchange contracts.
- (c) The reversal of £2.2 million provisions which do not meet the criteria for Financial Reporting Standard No.12, 'Provisions, Contingent Liabilities and Contingent Assets', and £0.2 million deferred tax liability not recognised under statement of Standard Account Practice no. 15, 'Accounting for Deferred Tax'.
- (d) The reclassification of £1.7 million debt issue costs from debtors to loans and of £4.4 million marketable securities from debtors to cash.

impact of the cash flow statement

save as already disclosed, the acquisition of Aguas Puerto and ESVAL has had the following impact on the group cash flow statement

	2001 £m
Net cash inflow from operating activities	9.2
Returns on investments and servicing of finance	(2.6)
Capital expenditure and financial investments	(37.5)
Management of liquid resources	(6.3)
Financing	37.7
Increase in cash	<u>0.5</u>

The pre acquisition results of Aguas Puerto and ESVAL are stated on the basis of their accounting policies prior to the acquisition, and have been translated into their sterling equivalent using the average rate for the period. In the period prior to acquisition (4 August 2000), the Aguas Puerto group (including ESVAL) made a profit after tax of £2.7 million. The consolidated result for the last full financial year to 31 December 1999 was a loss after tax of £1.8 million.

other acquisitions

During the year the group acquired the entire issued share capital of Mka Software Limited (5 May 2000), Systemware Plc (18 May 2000), and Pickwick Ltd (1 June 2000). In addition the group acquired 60 per cent of the issued share capital of Fields and Towers Limited (1 June 2000) and the remaining 50 per cent of the issued share capital of the Linkline partnership (1 April 2000). These acquisitions were for a total consideration of £9.9 million.

During the year, the group acquired 58.3 per cent share capital of VAK Beroun in the Czech Republic (15 December 2000) for a total consideration of £1.6 million, and the group also acquired the entire issued share capital of Zickert Miljø A.S. in Denmark (1 April 2000) for a total consideration of £0.3 million.

notes to the financial statements (continued)

15. acquisitions (continued)

The combined provisional fair value table is set out below:

	Book value prior to acquisition	Revaluation adjustments note (i)	Accounting policy alignments note (ii)	Provisional fair values
	£m	£m	£m	£m
Fixed assets	7.9	(5.0)	-	2.9
Investments	0.1	-	-	0.1
Debtors	1.8	-	-	1.8
Cash at bank	1.5	-	(0.1)	1.4
Short-term borrowings	(0.1)	-	-	(0.1)
Other short-term creditors	(1.6)	-	-	(1.6)
Long-term creditors	(0.1)	-	(1.0)	(1.1)
Provisions	(1.1)	-	1.1	-
	8.4	(5.0)	-	3.4
Less minority interests				(1.1)
Net assets acquired				2.3
Cash paid				5.1
Loan notes issued				3.4
Accrued consideration				2.1
Deferred consideration				1.2
Total consideration				11.8
Goodwill arising on acquisition				9.5

Note (i) The revaluation adjustments relate to the revaluation of tangible fixed assets at their depreciated replacement cost.

Note (ii) The accounting policy alignments principally relate to a reclassification of provisions to long-term creditors.

16. stock and work in progress

	Group		Company	
	2001	2000	2001	2000
	£m	£m	£m	£m
Raw materials and consumables	10.6	13.1	-	-
Work in progress	156.1	0.4	-	-
Finished goods	2.3	-	-	-
	169.0	13.5	-	-

Work in progress includes long-term contract balances of £213.0 million (2000 - £nil) less applicable payments on account of £195.0 million (2000 - £nil).

The current replacement value of stock does not materially exceed the historical costs stated above.

There is no stock and work in progress in the company.

17. debtors

	Group		Company	
	2001	2000	2001	2000
	£m	£m	£m	£m
Amount falling due within one year:				
Trade debtors	243.5	170.9	-	-
Amounts recoverable on contracts	56.9	23.0	-	-
Advance Corporation Tax recoverable	-	-	33.0	26.4
Amounts owed by joint ventures and associates	111.2	-	-	-
Amounts owed by subsidiary undertakings	-	-	129.9	132.6
Other debtors	45.4	27.0	1.5	3.2
Prepayments and accrued income	62.8	7.1	5.8	1.2
	519.8	228.0	170.2	163.4
Amounts falling due after more than one year:				
Trade debtors	2.5	1.0	-	-
Amounts recoverable on contracts	3.8	5.2	-	-
Amounts owed by joint ventures and associates	8.3	-	-	-
Prepaid pension contributions	13.4	13.3	-	-
	547.8	247.5	170.2	163.4

notes to the financial statements (continued)

18. current asset investments

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Money market investments	124.2	7.5	124.2	-

Investments all mature within 12 months. The currency and interest rate composition of the group's investment is included in note 20.

19. creditors: amounts falling due within one year

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Bank overdrafts	47.6	17.7	5.2	-
Current portion of long-term loans (note 20)	576.9	43.9	450.1	18.3
Loans repayable (note 20)	77.9	-	-	-
Obligations under finance leases (note 20)	21.5	28.4	-	-
Short-term borrowings	723.9	90.0	455.3	18.3
Trade creditors	249.3	118.9	-	-
Payments on account in excess of contract value	37.2	28.7	-	-
Amounts due to subsidiaries	-	-	2.9	-
Receipts in advance	52.9	48.6	-	-
Amounts due to joint ventures and associates	4.2	-	-	-
Corporation Tax	28.0	26.4	-	-
Other creditors	38.3	-	0.2	-
Other taxation and social security	13.0	3.6	1.3	0.7
Dividend declared not yet paid	20.0	-	20.0	-
Accruals and deferred income	138.1	71.2	34.4	38.9
Deferred consideration for acquisition	13.8	10.5	-	-
Other creditors	594.8	307.9	58.8	39.6

20. loans, other borrowings and financial instruments

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
loans and other borrowings				
<i>Repayable wholly after five years:</i>				
5 1/8% Index Linked Loan Stock 2008 (a)	145.2	138.9	145.2	138.9
3.875% Index Linked Loan Stock 2020	154.4	-	154.4	-
12% Fixed Rate Bonds 2014	100.0	100.0	100.0	100.0
European Investment Bank 2005 (Interest at 8.2%)	-	60.0	-	-
US\$122m Private Placements 2006	-	79.1	-	76.2
8 1/4% Fixed Rate Bonds 2006	-	149.3	-	149.3
6.625% Fixed Bond £200m 2023	196.7	196.5	196.7	196.5
6.375% Fixed Bond £200m 2029	198.5	198.5	198.5	198.5
350m Euro Bond 2009 (Interest at 6.57%)	229.2	229.2	229.2	229.2
US\$ 25m Private Placement 2009	15.5	15.5	15.5	15.5
US\$ 166m Private Placements 2012	98.5	98.5	98.5	98.5
US\$ 25m Fixed Rate Loan 2009	15.3	-	-	-
Morrison Loan Notes 2007 (Interest at LIBID minus 0.5%)	64.7	-	64.7	-
	1,218.0	1,265.5	1,202.7	1,202.6
<i>Repayable by instalments, any of which is due for repayment after five years:</i>				
European Investment Bank 2005 (Interest at 6.62%)	-	30.0	-	-
European Investment Bank 2007 (Interest at 7.38%)	5.5	6.4	-	-
European Investment Bank 2007 (Interest at 9.9%)	18.0	21.0	-	-
US\$ 18.3m Bank Loan (interest CFBM plus 0.5%) 2008	11.1	-	-	-
UF 1.7m 7% Bonds 2021	31.1	-	-	-
US\$ 10m Private Placement (Interest at 6.71%)	3.8	3.7	3.8	3.7
Finance leases	224.6	238.7	-	-
Other borrowings (b)	2.5	22.7	-	-
	296.6	322.5	3.8	3.7

notes to the financial statements (continued)

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

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
<i>Repayable wholly within five years:</i>				
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 6.6%)	10.0	10.0	-	-
European Investment Bank 2004 (Interest at 11.5%)	8.0	9.5	-	-
European Investment Bank 2005 (Interest at 8.5%)	25.0	-	-	-
European Investment Bank 2005 (Interest at 6.62%)	60.0	-	-	-
Hartlepool Water Loan Notes 2002 (Interest at LIBOR minus 1.0%)	2.4	2.6	2.4	2.6
US\$ 122m Private Placements 2006	79.1	-	76.3	-
8 ¼% Fixed Rate Bonds 2006	149.4	-	149.4	-
Revolving Multi-Currency Credit Facilities 2001	418.9	-	418.9	-
US\$ 40m Bank Loan 2001 (Interest at LIBOR plus 2%)	27.9	-	27.9	-
1,000m Czech Crown Loan 2000 (Interest at 5.61%)	-	17.6	-	17.6
137m THB Bank of Asia Public Company Ltd	2.2	-	-	-
US\$ 75m Bank Loan (Interest at LIBOR plus 1.875%) 2002	49.7	-	-	-
UF 0.8m Bank Loan (Interest TAB plus 1.3%) 2004	14.5	-	-	-
¥977m Loan 2003	5.7	5.4	-	-
US\$ 183m Bank Loan	121.0	-	-	-
Czech Government Loans	2.9	-	-	-
Guaranteed Loan Notes	3.4	-	-	-
US\$ 5m revolving credit facility 2001 (Interest at LIBOR plus 2%)	3.5	-	-	-
Finance leases	27.0	-	-	-
Other loans (b)	3.5	1.4	3.0	-
	1,124.1	156.5	677.9	20.2
Total loans and other borrowings	2,638.7	1,744.5	1,884.4	1,226.5
Less amounts included in creditors falling due within one year (note 19)	(676.3)	(72.3)	(450.1)	(18.3)
Loans and other borrowings falling due after more than one year	1,962.4	1,672.2	1,434.3	1,208.2

- a) The value of the capital and interest elements of the Index Linked Loan Stock are linked to movements in the Retail Price Index. The increase in the capital value during the year of £10.7 million (2000 - £1.4 million) has been taken to the profit and loss account as part of interest payable.
- b) Of the unspecified loans and other borrowings, £2.6 million (2000 - £21.9 million) are at fixed rates and the remainder are at variable rates. Loans and other borrowings include £0.7 million (2000 - £0.8 million) secured on the revenues of a subsidiary undertaking.

financial instruments disclosures

The group's policies on management of financial risk are set out below:

management of financial risks

Major financial risks faced by the group include funding, interest rate, contractual, country and currency risks, and these are considered by the awg plc board on a group wide basis including Anglian Water Plc. The board 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 2001, and treasury matters are reported monthly to the board.

The group aims to fund its operations primarily through the public bond markets, private placements, bank loans and finance leases. Surplus cash is principally invested in short-term bank deposits.

The group also enters into derivative transactions (principally currency and interest rate swaps and forward exchange contracts) 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 derivatives are held for risk management purposes only.

The group manages its country risk by focusing its activities into geographical sectors and placing area management in these locations, principally the UK, Ireland, Czech Republic, Chile and Thailand.

The group's governance structure provides strict authority limits before entering into contractual commitments. The progress of contracts is closely monitored at a local level with regular management input that forms part of formalised contract review processes.

notes to the financial statements (continued)

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

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 continued to be focused on the efficient and effective management of cash and financial resources within the group. Treasury policy is formally reviewed annually by the board. The group treasury function will actively seek opportunities to:

- secure funds and invest temporary surplus cash to best advantage at minimal financial risk;
- actively manage the group's foreign exchange and interest rate exposures;
- maintain an excellent reputation with providers of finance and rating agencies;
- improve cash management techniques and systems throughout the group.

Liquidity

The group's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At the year end, the group held cash, deposits and current asset investments of £297.8 million (2000 - £163.1 million) and had undrawn committed multi-currency facilities of £382.4 million (2000 - £295.0 million). These resources are maintained to ensure liquidity and the continuation of the investment programme of the group. The maturity profile of the group's borrowings is set out in note 20 and the changes to that profile during the year are described opposite.

Borrowing covenants

With the exception of asset based funding in Anglian Water Services Limited and some overseas businesses, all group borrowings are raised or guaranteed by Anglian Water Plc or Morrison plc. Group Treasury monitors compliance against all financial obligations, and its is group policy to manage the consolidated balance sheet so as to operate within covenanted restrictions.

Interest rates

The group's policy as agreed by the board is to achieve an optimum mix of finding at indexed, fixed and floating rates of interest, including the use of interest rate swaps to manage the group's exposure to interest rate fluctuations. At the year end 11.3 per cent (2000 - 7.9 per cent) of the group's borrowings were indexed to inflation, 49.8 per cent (2000 - 59.4 per cent) were at fixed rates and 38.9 per cent (2000 - 32.7 per cent) were at floating rates of interest taking into account interest rate swaps.

Foreign currency

The group has currency exposures resulting from investments in overseas territories 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 net assets and profits.

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 exchange rates prevailing at the year end. The resulting exposures are monitored and, at certain thresholds, may be hedged by currency borrowings, cross-currency swaps or forward exchange contracts. The group's continued investments in the Czech Republic and Chile have been hedged during the year in accordance with group policy.

maturity analysis of financial liabilities

	Group	
	2001 £m	2000 £m
Less than one year	728.2	101.3
Between one and two years	179.5	95.8
Between two and five years	278.5	166.9
After five years	1,547.9	1,440.7
	2,734.1	1,804.7

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

notes to the financial statements (continued)

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

Included above are amounts due under finance leases of £40.6 million (2000 - £36.5 million) payable within one year, £ 33.6 million (2000 - £23.9 million) payable between one to two years, £59.3 million (2000 - £49.0 million) payable between two and five years and £118.1 million (2000 - £129.3 million) payable after five years.

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

currency exposures

Following the further investment in Chile made during the year, the group has monetary liabilities of ¥977 million and US\$ 208 million in the form of bank loans in Chile. These liabilities have been hedged via currency swaps and forward exchange contracts into Unidades de Fomento (UF), an index-linked form of the local functional currency, the Chilean peso.

The group also has local bank loans of US\$ 90.7 million (£63.3 million) in Chile. Of this amount, US\$ 49.0 million (£34.2 million) is hedged into UF through forward exchange contracts. The remaining US\$ 41.7 million (£29.1 million) is not hedged.

Other than as described above, the group has no material unhedged monetary assets and liabilities denominated in a currency different from the functional currency of the particular operation.

fair value of financial assets and financial liabilities

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

	2001		2000	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Current asset investments	124.2	127.0	7.5	7.5
Cash and deposits	173.6	173.6	155.6	155.6
Short-term borrowings	(723.9)	(732.7)	(90.0)	(90.0)
Long-term borrowings	(1,983.2)	(2,150.2)	(1,654.7)	(1,853.7)
Currency and interest rate swaps	12.4	(10.7)	(17.5)	(34.2)
Forward Exchange Contracts	8.4	8.4	-	-
	(2,388.5)	(2,584.6)	(1,599.1)	(1,814.8)
Fixed asset investment	17.4	20.8	-	-
Provisions (note 22)	(36.7)	(36.7)	(34.2)	(34.2)
Other financial liabilities (note 21)	(11.1)	(11.1)	(8.3)	(8.3)
	(2,418.9)	(2,611.6)	(1,641.6)	(1,857.3)

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.

In accordance with the group accounting policy, long term borrowings are recorded using the contracted rates implicit in the financial instruments used to hedge the groups exposure to fluctuations in currency and interest rates.

In the fair value table above, the book values assigned to derivative instruments are separately analysed from the book values of the underlying loans.

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 Euro bond 2009. The group has also entered into swap arrangements to hedge overseas investments. 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, £19.5 million at a floating rate of six month LIBOR + 0.39 per cent, £5.9 million at a floating rate of six month LIBOR + 0.29 per cent and £229.2 million at a floating rate of three months EURIBOR + 0.62 per cent. The interest on a finance lease of £18.8 million has also been swapped at a fixed rate of 5.3 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 2001. The value at that date was determined by market interest rates, which fluctuate over time. The fair value of the group's fixed asset investments is calculated by discounting cash flows at prevailing rates.

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

notes to the financial statements (continued)

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

At 31 March 2000 there were £34.2 million of unrecognised losses in respect of interest rate swaps of which £5.0 million are included in the profit and loss account in 2000/2001. During the year £6.1 million unrecognised gains arose. At 31 March 2001 there are £0.9 million of unrecognised gains and £24.0 million of unrecognised losses, of which £3.2 million are expected to be included in the profit and loss account in 2001/2002 and the balance in future years.

At 31 March 2001 and 31 March 2000, gains and losses on forward exchange contracts taken out as hedges of sales and purchase transactions were not material.

currency and interest rate analysis of net financial assets/(liabilities) at 31 March 2001

	Total £m	Index linked £m	Floating rate £m	Fixed rate £m	Financial liabilities on which no interest is paid £m	Average interest rate	Average years to maturity
Sterling	(2,332.3)	(299.6)	(796.1)	(1,236.6)	-	7.3%	12.8
US dollar	(81.3)	-	(62.0)	(19.3)	-	6.6%	7.1
Rest of world	(225.1)	-	(167.9)	(57.2)	-	6.7%	14.0
Total borrowings	(2,638.7)	(299.6)	(1,026.0)	(1,313.1)	-		
Sterling	110.1	-	110.1	-	-		
Eurozone	0.1	-	0.1	-	-		
Rest of world	140.0	-	140.0	-	-		
Cash, deposits and current asset investments	250.2	-	250.2	-	-		
Net debt	(2,388.5)	(299.6)	(775.8)	(1,313.1)	-		
Fixed asset investment	17.4	-	-	17.4	-	7.5%	8.0
Provisions	(36.7)	-	-	-	(36.7)		20.0
Other financial liabilities	(11.1)	-	-	-	(11.1)		1.5
Net financial liabilities	(2,418.9)	(299.6)	(775.8)	(1,295.7)	(47.8)		

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 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)		12.6
Other financial liabilities	(8.3)	-	-	-	(8.3)		1.5
Net financial liabilities	(1,641.6)	(138.9)	(412.8)	(1,047.4)	(42.5)		

notes to the financial statements (continued)

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

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 2001.

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:

	2001	2000
	£m	£m
Expiring within one year	309.7	-
Expiring between one and two years	72.7	295.0
	382.4	295.0

21. other creditors falling due after more than one year

	Group		Company	
	2001	2000	2001	2000
	£m	£m	£m	£m
Trade creditors	11.1	8.3	-	-
Accruals and deferred income	-	0.1	-	-
Deferred grants and contributions	95.2	91.0	-	-
	106.3	99.4	-	-

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

22. provisions for liabilities and charges

	Unfunded	Restructuring	Contract	Total
	pension	costs	and other	
	obligations	£m	provisions	£m
	£m	£m	£m	£m
The group				
At 31 March 2000	20.4	8.8	5.0	34.2
Charge for the year	4.3	9.0	2.0	15.3
Amortisation of discount	2.0	-	-	2.0
Utilised in the year	(0.9)	(13.5)	(0.4)	(14.8)
At 31 March 2001	25.8	4.3	6.6	36.7

The provision for restructuring costs charged in the year relates to redundancy and other costs arising on the second tranche of the redundancy programme announced in the current year (note 4). The provision for pension obligations relates to the cost of unfunded pension enhancements. These pension payments are expected to be made over several future accounting periods. The provision is determined using actuarial assumptions based on those used for the valuation of the group's pension scheme and has been discounted at a rate that reflects the group's cost of capital.

The contract and other provisions relate to potential warranty, certification, costs and other exposures in the International and Morrison businesses which are expected to crystallise over a period of approximately three years.

The company has no provisions for liabilities and charges.

23. deferred taxation

In accordance with the group's accounting policy there is no requirement for a provision for deferred taxation at 31 March 2001. The group's full potential deferred taxation liability, calculated under the liability method at a tax rate of 30 per cent (2000 - 30 per cent) is:

	2001	2000
	£m	£m
Accelerated capital allowances	646.0	607.6
Other timing differences	(22.8)	(20.5)
Available tax losses	(0.2)	(5.5)
Advance Corporation Tax	(151.9)	(157.9)
	471.1	423.7

notes to the financial statements (continued)

24. commitments under operating leases

At 31 March 2001 the group had commitments to make payments during the next 12 months under non-cancellable operating leases which expire as follows:

	2001		2000	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
The group				
Within one year	0.6	0.8	0.1	0.5
Between one and five years	0.6	5.9	0.3	0.6
After five years	6.9	-	2.7	0.1
	8.1	6.7	3.1	1.2

The company had no such commitments.

25. share capital

	2001 £m	2000 £m
Authorised		
503.4 million ordinary shares of 47 1/7 pence each	237.3	237.3
279.8 million B shares of 56 pence each	156.7	156.7
34,845.7 million redeemable shares of 0.1 pence each	34.8	34.8
	428.8	428.8
Allotted, issued and fully paid		
282.0 million (2000: 272.2 million) ordinary shares of 47 1/7 pence each	133.0	128.4
nil (2000 - 10.7 million) B shares of 56 pence each	-	6.0
nil (2000 - 2,461.5 million) redeemable shares of 0.1 pence each	-	2.5
	133.0	136.9

background to the scheme

On 9 October 2000, Anglian Water Plc, by means of a Scheme of Arrangement under section 425 of the Companies Act 1985, introduced a new parent company, awg plc. Under the Scheme, Scheme Shares (i.e. Ordinary Shares in existence at 8.00 pm on 6 October 2000) were cancelled. In return for this cancellation, holders of Scheme Shares were issued with one new ordinary share in the capital of awg plc for every one Scheme Share held.

Options over shares in Anglian Water Plc were "rolled-over" into options over shares in awg plc. At 31 March 2001 the total number of ordinary shares under option was 5,551,900.

The increases in share capital of Anglian Water Plc prior to the effective scheme date are shown in the table below:

	No of shares in issue	Cost £m	Premium £m
As at 1 April 2000	272,242,521	128.40	45.60
Exercise of share options under the executive share option scheme	44,517	0.02	-
Exercise of share options under the sharesave scheme	288,156	0.13	1.70
Allotment of shares to Morrison plc shareholders electing for the partial share alternative	9,444,607	4.45	55.00
As at 31 March 2001	282,019,801	133.00	102.30

notes to the financial statements (continued)

26. movement in total shareholders' funds

The group	Ordinary share capital	B shares	Redeemable shares	Share premium account	Capital redemption reserve	Profit and loss account	2001 Total	2000 Total
	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of year	128.4	6.0	2.5	45.6	219.1	1,383.0	1,784.6	1,655.7
Issue of shares in Anglian Water Plc in respect of acquisition of Morrison (note 8 and note 25)	4.5	-	-	55.0	-	-	59.5	-
Redemption of 'B' shares and preference shares	-	(6.0)	(2.5)	-	8.5	(8.5)	(8.5)	(32.7)
Issue of shares (note 25)	0.1	-	-	1.7	-	-	1.8	2.1
Total recognised gains relating to the year	-	-	-	-	-	101.7	101.7	159.8
Dividends	-	-	-	-	-	(140.7)	(140.7)	(0.3)
At end of year	133.0	-	-	102.3	227.6	1,335.5	1,798.4	1,784.6

Following the approval of the High Court Scheme of Arrangement on 9 October 2000, Scheme Shares (i.e. 47 1/7 pence Ordinary Shares in Anglian Water Plc in existence at 6 October 2000) were cancelled. In return for this cancellation, holders of Scheme Shares were issued with one new ordinary share of 10 pence in awg plc for every one Scheme Share held.

Cumulative goodwill not yet taken to the profit and loss account amounts to £311.5 million (2000 - £15.9 million) of which £57.0 million (2000 - £57.0 million) has been eliminated directly against reserves as a matter of accounting policy.

The company	Ordinary share capital	B Shares	Redeemable shares	Share premium account	Capital redemption reserve	Profit and loss account	2001 Total	2000 Total
	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of the year	128.4	6.0	2.5	45.6	219.1	644.3	1,045.9	930.0
Redemption of B shares and redeemable shares	-	(6.0)	(2.5)	-	8.5	(8.5)	(8.5)	(32.7)
Shares issued in respect of the Morrison Plc acquisition	4.5	-	-	55.0	-	-	59.5	-
Other issues of shares	0.1	-	-	1.7	-	-	1.8	2.1
Total recognised gains for the year	-	-	-	-	-	121.2	121.2	146.5
Dividends declared	-	-	-	-	-	(140.7)	(140.7)	-
At end of year	133.0	-	-	102.3	227.6	616.3	1,079.2	1,045.9

notes to the financial statements (continued)

27. pension commitments

Pension arrangements for the majority of the group's UK employees are of the defined benefit type, through the Anglian Water Pension Scheme and the Morrison Pension & Life Assurance Plan.

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 separately from the finances of the group. Details of the most recent actuarial valuations of the pension schemes are summarised below:

Scheme	Anglian Water Pension Scheme	Morrison Pension and Life Assurance Plan
Date of valuation	31 August 2000	1 January 2000
Actuarial method	projected unit	projected unit
Main assumptions:		
Excess of investment returns over:-		
- general salary increases	1.5%	1.5%
- annual increases in pensions	3.5%	1.5%
Results		
Market value of assets	£573.1 million	£55.6 million
Funding level	127%	103%
Due date of next actuarial valuation	31 March 2002	1 April 2002

The regular pension cost for the year ended 31 March 2001 was £16.1 million (2000 - £10.4 million) and included £0.1 million (2000 - £0.1 million) for overseas schemes. These costs were offset by a credit of £13.1 million (2000 - £6.8 million) in respect of the amortisation of actuarial surpluses in the Anglian Water Pension Scheme. At 31 March 2001 there was a prepayment in respect of pensions of £13.4 million (2000 - £13.3 million) which related to the Anglian Water pension scheme.

28. contingent liabilities

The group has 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. The group has also guaranteed obligations of joint ventures and associates totalling £49.4 million.

29. related party transactions

The group's related party transactions requiring disclosure in the financial statements in accordance with Financial Reporting Standard no.8, 'Related Party Transactions' are summarised below:

	2001 £m	2000 £m
Sales to associates on normal trading terms	4.2	-
Sales to joint ventures on normal trading terms	41.6	-
Amounts due by associates	1.3	-
Amounts due by joint ventures	39.5	-
Loans due by joint ventures	78.1	-
Amounts owed to joint ventures	5.1	-
Loans due to joint ventures	1.0	-

In addition, two of the directors, Mr D J Challen, and Mr J McKenna are also directors of other companies with which the group has traded during the year.

Mr D Challen is also a director (and co-Chairman) of Schroder Salomon Smith Barney, the group merchant bankers which advise on the reconstruction of the group and on the acquisition of Morrison. During the year the group purchased services totalling £3.5 million from Schroder Salomon Smith Barney, and there are no significant accruals at year end.

Mr J McKenna is also a director of Logica Plc who provide information technology development services to the group. During the year the group purchased services totalling £3.1 million from Logica Plc, and there are no significant accruals at year end.

notes to the financial statements (continued)

30. principal group companies

The principal subsidiary undertakings at 31 March 2001 are shown below:

	Country of Incorporation	Activities
Water and Wastewater Services		
Anglian Water Services Limited	England	Water and wastewater undertaker, regulated principally by the Water Industry Act 1991. Water undertaker, regulated principally by the Water Industry Act 1991. Holding Company.
Hartlepool Water Plc ⁽⁹⁾	England	
Morrison: Construction, Development and Asset Management		
Morrison Limited ⁽²⁾	Scotland	Holding Company.
Morrison Construction Limited	Scotland	Building and civil engineering and utility contracting.
Morrison Homes Limited	Scotland	Development of residential estates.
Morrison Development Partnership Limited	Scotland	Construction and the development of land and buildings.
Morrison International Limited	Scotland	Building and civil engineering contracting.
Morrison International Developments Limited	Scotland	Development of land and buildings .
International		
Anglian Water International Limited	England	International water and wastewater business development services; holding company.
AWI Holdings Limited	England	Holding company.
AW Overseas Holdings Limited	England	
PURAC AB	Sweden	Contracting for water and wastewater treatment processes.
PURAC GmbH	Germany	
PURAC Pty Limited ⁽¹⁾	Australia	
PURAC Limited	England	
PURAC-Anglian Water Treatment System (Beijing) Co Ltd	China	
PURAC Water Spolka Z.o.o.	Poland	
SmVAK A.S	Czech Republic	Water and wastewater treatment.
VAKJC A.S	Czech Republic	
VAK Beroun A.S	Czech Republic	
Anglian Water International (NZ) Limited	New Zealand	Management and operation of wastewater projects.

notes to the financial statements (continued)

30. principal group companies (continued)

AW Ireland Limited	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.
Zickert Miljø A/S	Denmark	Manufacture of wastewater treatment media; contracting in wastewater treatment processes.
Aguas Puerto S.A.	Chile	Holding company.
Empresa de Obras Sanitarias De Valparaiso S.A. (ESVAL)	Chile	Water and wastewater undertaker.
Anglian Water International Holdings Limited Y Compania Limitada	Chile	Holding company.
Inversiones Anglian Water Chile LTDA	Chile	Holding company.
Facilities Management		
Powermarque Limited	England	Transport leasing and fleet maintenance.
Geodesys Limited	England	Asset and management services.
Anglian Water Infrastructure Limited	England	Provision of infrastructure services to developers
Alpheus Environmental Limited	England	Wastewater treatment.
Anglian Water Direct Limited	England	Internet shopping and services.
MVM Holdings Limited	England	Data mapping.
Ambury Estates Limited	England	Corporate property management, facilities management, architecture and project management, and development consultancy.
Ambury Investments Limited	England	Property management.
Other		
Rutland Insurance Limited	Guernsey	Provision of insurance to group companies.

⁽¹⁾ Formerly Anglian Water International Pty Limited.

⁽²⁾ Morrison Plc changed it's name to Morrison Limited on 1 May 2001.

⁽³⁾ Hartlepool Water Plc changed its name to Hartlepool Water limited on 26 April 2001

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 54.3 per cent owned, VAKJC which is 95.2 per cent owned and VAK Beroun which is 58.3 per cent owned. Also, Aguas Puerto owns 49.8 per cent of and exerts dominant influence over ESVAL.

The voting rights in respect of each subsidiary are in the same proportion as the shares held. Those companies shown as incorporated in England are registered in England and Wales. All companies operate principally in their country of incorporation, except for Anglian Water International Limited and the PURAC Companies.

31. ultimate and immediate parent company

The company's ultimate and immediate parent company is awg plc, a company registered in England and Wales. Copies of the financial statements of awg plc may be obtained from the Company Secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ.

Anglian Water Plc

corporate advisers

merchant bank

Schroder Salomon Smith Barney, 120 Cheapside, London EC2V 6DS

auditors

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

solicitors

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

brokers

Cazenove, 12 Tokenhouse Yard, London, EC2R 7AN

Dresdner Kleinwort Wasserstein, 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