Anglian Water Services Limited

Interim report for the six months ended 30 September 2009

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Anglian Water Services Limited

Interim statement for the six months ended 30 September 2009

Announcing interim results for the half year ended 30 September 2009, Anglian Water Chief Executive Jonson Cox said:

> We have performed well in a tough economic climate, with operating profits up 6.7 per cent on the same period last year. Our Operational Performance Assessment score of 415 confirms our position as one of the leading UK water and wastewater companies for the third consecutive year in terms of quality, customer service and environmental performance.
>
> We maintained our extremely high standards in drinking and bathing water quality, achieving excellent scores of 99.98 and 100 per cent respectively. There are 17 Blue Flag beaches in our region this year, two more than last year.
>
> Capital expenditure for the first half of 2009 was at £169 million and we remain on track to meet regulatory requirements for the year.
>
> Our Final Business Plan commanded substantial regional support and was submitted to Ofwat at the beginning of the half year. We are currently analysing the Final Determination issued by Ofwat on 26 November and considering its implications for the Asset Management Plan period 2010/2015.

Financial summary

Results for the six months to 30 September *	2009/10	2008/09
	£m	£m
Turnover	557.1	525.8
Operating costs	(193.1)	(183.3)
Depreciation	(118.7)	(112.6)
Operating profit	245.3	229.9

*Prepared in accordance with UK GAAP

Turnover for the six months to September 2009 was £557.1 million (2008: £525.8 million). This increase of 6.0 per cent compared to the same period last year was due principally to the regulatory pricing formula. Demand from business customers in the region remains largely consistent with prior periods, although it is being closely monitored in light of the current economic climate.

Operating costs were up £9.8 million (5.3 per cent) on the prior period to £193.1 million. The prior period included £5.5 million of one-off costs relating to last year's water quality incident in Northamptonshire. The underlying increase in operating costs, excluding this one-off incident was £15.3 million, or 8.6 per cent, which is primarily a result of increases in power costs and bad debt provisions in the period, together with ongoing costs to run newly completed infrastructure.

Customer debt collection continues to be challenging in the current economic environment and the deterioration has accelerated during the last quarter. As a result, we have increased our bad debt charge compared to the same period last year. We introduced a new debt management system in January 2009 which is helping us to work effectively with our customers during this difficult economic period.

As a result of the ongoing capital programme, depreciation is up 5.4 per cent compared with the same period last year.

Operating profit has grown by 6.7 per cent to £245.3 million as a result of the increased turnover, partially offset by the increases in operating costs and depreciation.

The net finance charge (excluding the intra-group interest received of £96.8 million, 2008: £97.3 million) fell by £27.4 million from £157.5 million in the same period last year to £130.1 million in the six months to September 2009. This was principally due to the non-cash impact of reduced RPI on index-linked bonds, partially offset by lower interest receivable.

In the six months to September 2009 Anglian Water raised £154.6 million of new funds and made repayments totalling £298.3 million on maturing bonds. In addition to this, the subordinated intra-group loan of £90.0 million, which was provided by the shareholder consortium to maintain and improve near-term debt covenants at March 2009, was repaid in full in July 2009 to Osprey Holdco Limited, but currently remains within the overall group structure. New bank facilities totalling £300 million were successfully negotiated on a forward starting basis, which will replace £225 million of current facilities when they expire in July 2010.

Capital expenditure in the period remains on track with the commitment for the current Asset Management Plan (AMP4) period, which covers 2005 to 2010. During the first half of the year we invested £169 million in the capital programme, compared with £203 million for the same period last year. This reduction year on year is in line with the regulatory profile of spend over AMP4.

Operational performance

In October 2009, Ofwat announced our overall performance assessment score (OPA) of 415 for 2008/09, putting us in the top two English and Welsh water and wastewater companies for the third consecutive year and consolidating our position as one of the UK's leading water companies (2007/08: 419). The average score for the 10 water and wastewater companies in England and Wales is 397 (2007/08: 383).

Anglian Water supplies safe, pure drinking water, essential to the health and well-being of over four million domestic and commercial customers. The Drinking Water Inspectorate's latest full year report - for the calendar year 2008 - shows drinking water quality to be extremely high, with Anglian Water's *mean zonal compliance* score at 99.98 per cent against regulatory standards (2007: 99.96 per cent).

Anglian Water takes its responsibility to the region's environment seriously and this is reflected in its operations. The quality of the water it returns to the sea around the region's extensive coastline plays an important role in improving the overall standard of the region's bathing waters. This year there are 17 Blue Flag beaches in Anglian Water's region, two more than in 2008.

During 2009, and for the eighth consecutive year, Anglian Water maintained its record of 100 per cent compliance with the mandatory bathing water standards. In addition, it met the more stringent guideline standards at 34 out of the 46 designated bathing waters in the region for the second year running.

Anglian Water continues to contribute substantially to improving river water quality in the region. In particular, the company's phosphate removal processes are bringing year on year improvements, continuing a steady trend since 2000.

The Environment Agency's latest river monitoring quality data shows that, for 99.8 per cent of rivers in the Anglian Water region, biological quality was classed as 'very good' to 'fair' (2007: 99.8 per cent). The chemical quality of rivers in the Anglian Water region increased to 94.8 per cent (2007: 92.1 per cent).

Price review

In April Anglian Water submitted its Final Business Plan to Ofwat as part of the 2009 Price Review for the 2010/15 AMP period (AMP5).

The Final Business Plan drew substantial support from partner organisations in the region, including the regional Consumer Council for Water, the East of England Development Agency (EEDA) and the CBI. In the light of this support, Anglian Water found Ofwat's Draft Determination, issued in August, disappointing. The company submitted its response in September.

Ofwat issued its Final Determination on 26 November 2009 and Anglian Water is currently considering the implications for AMP5.

The new prices determined by Ofwat will come into effect in April 2010, the beginning of the new AMP period.

END

Contact details:

Andrew Mackintosh Head of Group Communications + 44 (0) 1480 323231

Notes

- The OPA encompasses a range of service measures, including water, wastewater and customer service performance, as well as impact on the environment.

- The water industry operates on five-yearly cycles called Asset Management Plan (AMP) periods. Prices are set by the regulator Ofwat at the beginning of each period, following submissions from each company about what it will cost to deliver their plans.

Consolidated income statement
for the six months ended 30 September

Notes		Six months ended 30 September 2009 Excluding transactions with AWS Holding companies Unaudited £m	Transactions with AWS Holding companies Unaudited £m	Total Unaudited £m	Six months ended 30 September 2008 Unaudited £m	Year ended 31 March 2009 Audited £m
	Turnover	**557.1**	**-**	**557.1**	525.8	1,037.4
	Group operating costs	**(311.8)**	**-**	**(311.8)**	(295.9)	(591.8)
	Group operating profit	**245.3**	**-**	**245.3**	229.9	445.6
	Finance costs					
	Interest payable and similar charges	**(124.8)**	**-**	**(124.8)**	(176.0)	(333.4)
	Interest receivable	**2.4**	**96.8**	**99.2**	118.5	227.5
	Other finance charges	**(7.7)**	**-**	**(7.7)**	(2.7)	(9.4)
	Finance costs (net)	**(130.1)**	**96.8**	**(33.3)**	(60.2)	(115.3)
	Profit on ordinary activities before taxation	**115.2**	**96.8**	**212.0**	169.7	330.3
2	Tax on profit on ordinary activities	**(40.0)**	**-**	**(40.0)**	(16.2)	(13.0)
	Profit on ordinary activities after taxation for the period	**75.2**	**96.8**	**172.0**	153.5	317.3
3	Dividends paid and committed	**(37.7)**	**(96.8)**	**(134.5)**	(197.3)	(293.6)
	Profit/(loss) for the period	**37.5**	**-**	**37.5**	(43.8)	23.7

The 'transactions with AWS Holding companies' column has been included to show the interest receivable by Anglian Water Services (AWS) Limited from AWS Holdings Limited. The interest paid by AWS Holdings Limited is serviced by a dividend payment from AWS Limited (see note 3) via AWS Overseas Holdings Limited.

The accompanying notes are an integral part of this consolidated financial information.

Consolidated statement of total recognised gains and losses for the six months ended 30 September

	Six months ended 30 September 2009 Unaudited £m	Six months ended 30 September 2008 Unaudited £m	Year Ended 31 March 2009 Audited £m
Profit on ordinary activities after taxation for the period	**172.0**	153.5	317.3
Actuarial (losses)/gains recognised in the pension scheme	**(67.7)**	33.9	(15.7)
Movement on current tax relating to the actuarial loss in the pension scheme	**1.7**	-	1.0
Movement on deferred tax relating to the actuarial loss/(gain) in the pension scheme	**19.0**	(9.5)	3.4
Total recognised gains and losses for the period	**125.0**	177.9	306.0

Consolidated balance sheet
at 30 September

	30 September 2009 Unaudited £m	30 September 2008 Unaudited £m	31 March 2009 Audited £m
Fixed assets			
Tangible assets	**4,609.4**	4,464.5	4,567.9
Investments	**1,609.1**	1,609.1	1,609.1
	6,218.5	6,073.6	6,177.0
Current assets			
Stock	**12.5**	14.6	12.8
Debtors	**456.8**	429.7	263.1
Investments – money market deposits	**15.0**	166.3	-
Cash at bank and in hand (including short-term deposits)	**597.2**	554.9	913.3
	1,081.5	1,165.5	1,189.2
Creditors: amounts falling due within one year			
Short-term borrowings	**(2.2)**	(300.2)	(300.4)
Other creditors	**(555.2)**	(516.6)	(448.3)
	(557.4)	(816.8)	(748.7)
Net current assets	**524.1**	348.7	440.5
Total assets less current liabilities	**6,742.6**	6,422.3	6,617.5
Creditors: amounts falling due after more than year			
Loans and other borrowings	**(4,969.7)**	(4,749.0)	(4,900.3)
Other creditors	**(127.5)**	(127.6)	(126.3)
Provisions for liabilities and charges	**(66.2)**	(70.9)	(49.9)
Defined benefit pension liabilities	**(118.8)**	(36.7)	(71.1)
Net assets including pension deficit	**1,460.4**	1,438.1	1,469.9
Capital and reserves			
Called up share capital	**860.0**	860.0	860.0
Profit and loss account	**600.4**	578.1	609.9
Total shareholder's funds	**1,460.4**	1,438.1	1,469.9

The accompanying notes are an integral part of this consolidated financial information.

Consolidated cash flow statement
for the six months ended 30 September

Notes		Six months ended 30 September 2009 Unaudited £m	Six months ended 30 September 2008 Unaudited £m	Year ended 31 March 2009 Audited £m
(a)	**Net cash inflow from operating activities**	**318.6**	299.1	630.5
	Returns on investment and servicing of finance			
	Interest received	**99.4**	116.1	230.7
	Interest paid	**(147.4)**	(130.9)	(218.9)
	Issue costs of new debt issued	**(1.2)**	(1.8)	(2.6)
	Interest element of finance lease rental payments	**(0.1)**	0.1	(3.7)
	Net cash (outflow)/inflow for returns on investment and servicing of finance	**(49.3)**	(16.5)	5.5
	Taxation			
	Corporation tax received	**-**	-	6.5
	Payments to other Anglian Water Group Limited group undertakings	**(18.8)**	(15.6)	(15.6)
		(18.8)	(15.6)	(9.1)
	Capital expenditure and financial investment			
	Purchase of tangible fixed assets	**(194.3)**	(235.3)	(432.1)
	Grants and contributions received	**10.9**	14.1	24.3
	Disposal of tangible fixed assets	**-**	0.2	2.0
	Net cash outflow for capital expenditure and financial investment	**(183.4)**	(221.0)	(405.8)
	Equity dividends paid	**(134.5)**	(196.8)	(293.1)
	Net cash outflow before management of liquid resources and financing	**(67.4)**	(150.8)	(72.0)
	Management of liquid resources			
	Decrease/(increase) in short-term deposits and investments	**216.7**	(27.1)	(32.7)
	Net cash inflow/(outflow) from management of liquid resources	**216.7**	(27.1)	(32.7)
	Financing			
	Increase in borrowings	**154.6**	419.1	534.1
	Repayments of amounts borrowed	**(388.3)**	(238.2)	(238.2)
	Capital element of finance lease rental payments	**-**	(1.2)	(2.9)
	Net cash (outflow)/inflow from financing	**(233.7)**	179.7	293.0
	Net (decrease)/increase in cash	**(84.4)**	1.8	188.3

Notes to the consolidated cash flow statement

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

	Six months ended 30 September 2009 Unaudited	Six months ended 30 September 2008 Unaudited	Year Ended 31 March 2009 Audited
	£m	£m	£m
Operating profit	**245.3**	229.9	445.6
- Depreciation (net of amortisation of grants and contributions)	**118.7**	112.6	228.3
- Profit on disposal of fixed assets	**-**	(0.2)	(1.9)
- Net movement in provisions	**(8.7)**	(6.2)	(12.8)
	355.3	336.1	659.2
Working capital:			
- Decrease in stocks	**0.3**	2.0	3.8
- Increase in debtors	**(197.1)**	(194.0)	(33.0)
- Increase in creditors	**160.1**	155.0	0.5
	(36.7)	(37.0)	(28.7)
Net cash inflow from operating activities	**318.6**	299.1	630.5

Notes to the consolidated financial information

1. The consolidated financial information for the Anglian Water Services group is for the six months ended 30 September 2009 and has been prepared in accordance with UK GAAP and on the basis of accounting policies consistent with those used for the audited financial statements of Anglian Water Services Limited at 31 March 2009. The Anglian Water Services group (the group) financial information comprises a consolidation of the financial information of Anglian Water Services Limited (the company) and its subsidiary, Anglian Water Services Financing Plc, at 30 September. Intra-group sales and profit are eliminated fully on consolidation.

   The financial information does not constitute statutory accounts of the group within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for Anglian Water Services Limited for the year ended 31 March 2009 have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under Section 237 of the Companies Act 1985. The consolidated financial information should be read in conjunction with the annual report and accounts for the year ended 31 March 2009.

2. **Taxation**

	Six months ended 30 September 2009 Unaudited £m	Six months ended 30 September 2008 Unaudited £m	Year ended 31 March 2009 Audited £m
Analysis of charge in the period			
Current tax	**24.8**	22.1	41.8
Deferred tax charge/(credit)	**15.2**	(5.9)	(28.8)
Total taxation charge	**40.0**	16.2	13.0
Tax on items taken directly to equity			
Current tax credit relating to the actuarial loss in the pension scheme	**(1.7)**	-	(1.0)
Deferred tax (credit)/charge on actuarial (losses)/gains on defined benefit pension schemes offset in reserves	**(19.0)**	9.5	(3.4)
	(20.7)	9.5	(4.4)

3. **Dividends**

   The following dividends were paid by the group:

	Six months ended 30 September 2009 Unaudited £m	Six months ended 30 September 2008 Unaudited £m	Year ended 31 March 2009 Audited £m
Dividends paid and committed within the ring fence companies	**96.8**	97.3	193.6
Dividends paid to the non-ring fence companies	**37.7**	100.0	100.0
	134.5	197.3	293.6

4. **Movement in shareholder's funds**

	Ordinary share capital £m	**Profit and loss account £m**	**Total £m**
At 1 April 2009	860.0	609.9	**1,469.9**
Total recognised gains and losses for the period	-	125.0	**125.0**
Dividends paid and committed	-	(134.5)	**(134.5)**
At 30 September 2009	**860.0**	**600.4**	**1,460.4**