

For immediate release
29 May 2008

Anglian Water Services Limited
Financial results for year ended 31 March 2008

Commenting on the results, Jonson Cox, Anglian Water's Chief Executive said:

Anglian Water has delivered another strong financial and operating performance in the first full year of trading since its parent company was acquired by Osprey Acquisitions Limited.

This performance has been achieved despite extreme and unpredictable weather conditions in the first half of the year, which resulted in flooding in parts of Norfolk and much of Lincolnshire.

As announced last year, we have begun investing an additional £50 million beyond the 2005–10 regulatory determination in schemes to improve the security of supply to customers across our region.

Of this, £40 million is in recognition of the higher than anticipated revenues that have been generated as a result of the hot, dry summer weather in 2005 and 2006. In addition, Anglian Water will invest £10 million generated from efficiencies.

In November, we published our long-term strategy for the next 25 years. The Strategic Direction Statement (SDS) identified growth and climate change as the biggest long-term challenges we face.

The SDS involved an unprecedented amount of engagement with all interested parties in the region. As a result, the SDS is an invaluable roadmap and provides an excellent framework for our AMP5 (2010-2015) submission, which is a key priority in the coming year.

Financial performance¹

The consolidated profit and loss account as presented on page 6 of this announcement, is summarised in Table 1 below.

<u>Table 1</u>	2008 £m	2007 £m
Turnover	969.2	919.0
Operating profit	421.0	404.8
Net interest payable and other finance income	(89.1)	(51.9)
Profit before tax	331.9	352.9
Taxation	(20.2)	(17.8)
Profit after tax	311.7	335.1
Dividends	(290.6)	(443.1)
Retained profit/(loss)	21.1	(108.0)

In order to aid understanding of the accounts, a pro forma profit and loss account is provided in Table 2 (below).

In this profit and loss account, the interest receivable by the group from Anglian Water Services Holdings Ltd and the inter-company dividend paid by the group and retained within the Anglian Water Services Financing (AWSF) group of £193.6 million (2007: £193.1 million), have been eliminated.

<u>Table 2</u>	2008 £m	2007 £m
Turnover	969.2	919.0
Operating costs before depreciation	(331.2)	(324.7)
Depreciation ²	(217.0)	(189.5)
Operating profit	421.0	404.8
Net interest payable and other finance income	(282.7)	(245.0)
Profit before tax	138.3	159.8
Taxation	(20.2)	(17.8)
Profit after tax	118.1	142.0
Dividends	(97.0)	(250.0)
Retained profit/(loss)	21.1	(108.0)

Turnover for the year was £969.2 million, an increase of 5.5 per cent over the previous year. This reflects the year on year price increase offset by a reduction in

¹ Extracted from audited accounts for the year ended 31 March 2008

² Net of amortisation of grants and contributions

demand as the summer of 2007 was wet in contrast with the hot, dry summer of 2006. This net increase in revenue of £50.2 million contributed to an increase in operating profit (before depreciation) of £43.7million (7.4 per cent).

Operating expenditure for the year (excluding depreciation) increased by 2.0 per cent to £331.2 million (2007: £324.7 million). This was primarily due to inflationary pressures on costs and above inflationary increases to energy costs, commodity prices and bad debt charges. This was mitigated to a large extent by continued savings from a number of efficiency initiatives. Overall, operating expenditure (excluding depreciation) as a percentage of turnover, decreased slightly from 35.3 per cent to 34.2 per cent.

Depreciation was up from £189.5 million last year to £217.0 million, primarily as a result of an increase in the infrastructure renewals charge (IRC). The depreciation charge includes £72.0 million (2007: £52.5 million) of IRC which reflects a more forward looking view of the high level of investment in below ground infrastructure assets expected for the 15 year period 2005 to 2020. This year's depreciation charge also includes for the first time a full year's charge on the new billing system commissioned in December 2006.

Net interest payable and other finance income (excluding interest receivable on an inter-company loan) increased from £245.0 million in 2006/7 to £282.7 million in 2007/8. This is due to the impact of a full year's interest charge on a higher level of debt following the acquisition of the company, the higher RPI in the year increasing the cost of index linked debt and the requirement to raise new debt to finance the ongoing capital programme.

Capital expenditure

Gross capital expenditure for the year was £420.2 million, £166.0 million of which was delivered by an alliance of six partner companies working in close co-operation with Anglian Water. The total capital investment in the first three years of the Asset Management Plan (AMP) period was approximately £1,178 million (at 2007/8 prices), which is on track for meeting our Final Determination for AMP4¹.

Weather impacts

Following a drought year in 2006/7, the summer of 2007 was one of the wettest on record. Extreme and unpredictable weather patterns presented an operational challenge in the first half of the year, particularly in Lincolnshire and Norfolk.

Despite relatively plentiful water resources this year, the region remains the driest in the country and we continue our long-term planning of water resources to meet predicted growth in the region, as well as the impact of climate change.

¹ The current Asset Management Plan covers the period 2005 to 2010.

Operational performance

During the year Ofwat confirmed that Anglian Water's leakage was the lowest in the industry in the 2006/7 drought year. We were pleased that our additional focused investment in that year led to a 5 per cent reduction in leakage to 5.5 cubic metres of water per kilometre of main per day.

Investment in leakage was reduced to normal levels during 2007/8 in response to the higher rainfall and availability of water resources. As a result, we anticipate that our leakage level will have increased proportionately when it is announced by Ofwat later in the year.

Drinking water quality remained high during the year with 99.96 per cent compliance with regulatory standards. Hartlepool Water (part of the Anglian Water Group) achieved 100 per cent.

During the 2007 bathing season, Anglian Water once again achieved 100 per cent compliance with the mandatory bathing water standards. This is the ninth time in 11 years this has been achieved. Of these, 68.1 per cent of the beaches also passed the guideline standard, one of the requirements for a beach to be awarded Blue Flag status (2006: 70.2 per cent). This slight reduction was due to wetter weather conditions, which can adversely affect water quality.

The Environment Agency published its latest assessment of river water quality in August 2007 for the 2006 calendar year. The assessment classed the biological quality of 98.1 per cent of rivers as 'very good' to 'fair' (2005: 98.7 per cent). Chemical quality of the region's rivers remained at 89.4 per cent in the 'very good' to 'fair' range.

Rutland Water

At the end of the year, work began to increase the amount of water we are able to extract and treat from our largest and most strategically important reservoir, Rutland Water. This £115 million project is due to supply water by March 2010.

In April 2008, Sir David Attenborough officially opened the work Anglian Water is doing to protect the sensitive biodiversity of this European designated conservation site.

Looking ahead

Looking ahead to 2008/9, we remain focused on improving customer service, maintaining our improving efficiency trend and delivering the remainder of our capital investment programme for this asset management period.

We look forward to hearing the feedback from the independent expert panels that were set up as part of the Strategic Direction Statement process and to further

developing these working relationships. We will be submitting our draft business plan, as part of the price review process, to Ofwat on 11 August 2008.

Footnote:

Any forward-looking statements made in this document represent management's judgment as to what may occur in the future. However, the group's actual results for the current and future fiscal periods and corporate developments will depend on a number of economic, competitive and other factors, including some which will be outside the control of the group. Such factors could cause the group's actual results for current and future periods to differ materially from those expressed in any forward-looking statements made in this document. Unless otherwise required by applicable law, accounting standards or regulation, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

ENDS

Contact details:

Andrew Mackintosh	Head of Group Communications	+44 (0) 1480 323231
Rupert Pittman	Cardew Group	+44 (0) 207 930 0777

group profit and loss account

for the year ended 31 March

Notes	2008 £m	2007 £m
Turnover	969.2	919.0
Operating costs:		
- Operating costs before depreciation	(331.2)	(324.7)
- Depreciation net of amortisation of grants and contributions	(217.0)	(189.5)
Total operating costs	(548.2)	(514.2)
Operating profit	421.0	404.8
2 Net interest payable	(95.9)	(59.3)
3 Other finance income	6.8	7.4
Profit on ordinary activities before taxation	331.9	352.9
4 Tax on profit on ordinary activities	(20.2)	(17.8)
Profit for the financial year	311.7	335.1

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

group statement of total recognised gains and losses

for the year ended 31 March

	2008 £m	2007 £m
Profit on ordinary activities after taxation	311.7	335.1
Actuarial (losses)/gains recognised in the pension scheme	(81.9)	14.8
Movement on current tax relating to the actuarial loss/(gain) in the pension scheme	5.4	-
Movement on deferred tax relating to the actuarial loss/(gain) in the pension scheme	19.2	(5.1)
Impact of change in tax rate on deferred tax	0.8	-
Total recognised gains and losses relating to the year	255.2	344.8

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

group and company balance sheets

at 31 March

Notes	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Fixed assets				
Tangible assets	4,388.3	4,207.1	4,388.3	4,207.1
Investments	1,609.1	1,609.2	1,609.1	1,609.2
	<u>5,997.4</u>	<u>5,816.3</u>	<u>5,997.4</u>	<u>5,816.3</u>
Current assets				
Stocks	16.6	11.7	16.6	11.7
Debtors	232.7	215.7	568.5	406.5
Investments – money market deposits	170.0	242.0	-	40.0
Cash at bank and in hand (including short-term deposits)	522.3	311.9	330.7	310.3
	<u>941.6</u>	<u>781.3</u>	<u>915.8</u>	<u>768.5</u>
Creditors: amounts falling due within one year				
Short-term borrowings	(291.1)	(78.6)	(291.1)	(78.6)
Other creditors	(401.3)	(406.8)	(401.3)	(406.8)
	<u>(692.4)</u>	<u>(485.4)</u>	<u>(692.4)</u>	<u>(485.4)</u>
Net current assets	249.2	295.9	223.4	283.1
Total assets less current liabilities	6,246.6	6,112.2	6,220.8	6,099.4
Creditors: amounts falling due after more than one year				
Loans and other borrowings	(4,525.4)	(4,371.5)	(4,525.4)	(4,371.5)
Other creditors	(123.8)	(112.3)	(123.8)	(112.3)
Provisions for liabilities and charges	(77.4)	(119.6)	(77.4)	(119.6)
Defined benefit pension liability	(62.5)	(31.7)	(62.5)	(31.7)
Defined benefit pension asset	-	15.8	-	15.8
Net assets including pension deficit	<u>1,457.5</u>	<u>1,492.9</u>	<u>1,431.7</u>	<u>1,480.1</u>
Capital and reserves				
Called up share capital	860.0	860.0	860.0	860.0
Profit and loss reserve	597.5	632.9	571.7	620.1
Total shareholder's funds	<u>1,457.5</u>	<u>1,492.9</u>	<u>1,431.7</u>	<u>1,480.1</u>

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

group cash flow statement

for the year ended 31 March

	2008	2007
	£m	£m
Notes		
(a) Net cash inflow from operating activities	595.7	558.5
Returns on investments and servicing of finance		
Interest received	226.0	223.6
Interest paid	(220.5)	(217.2)
Issue costs of new bank loans	(0.4)	(0.4)
Interest element of finance lease rental payments	(4.9)	(5.9)
Net cash inflow from returns on investments and servicing of finance	0.2	0.1
Taxation		
Corporation tax received/(paid)	3.8	(10.1)
Payments to other Anglian Water Group Limited group undertakings	(29.6)	(24.3)
	(25.8)	(34.4)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(447.6)	(416.0)
Grants and contributions received	33.5	33.0
Disposal of tangible fixed assets	2.5	5.6
Net cash outflow for capital expenditure and financial investment	(411.6)	(377.4)
Equity dividends paid to shareholders	(291.1)	(442.6)
Net cash outflow before management of liquid resources and financing	(132.6)	(295.8)
Management of liquid resources		
Increase in short-term deposits and investments	(98.8)	(23.7)
Net cash outflow from management of liquid resources	(98.8)	(23.7)
Financing		
Increase in loans	300.9	550.0
Repayment of amounts borrowed	(2.7)	(177.9)
Capital element of finance lease rental payments	(27.2)	(23.9)
Net cash inflow from financing	271.0	348.2
Increase in cash	39.6	28.7

Note (a) forms part of this consolidated cash flow statement.

notes to the group cash flow statement
for the year ended 31 March

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

	2008	2007
	£m	£m
Operating profit	421.0	404.8
Depreciation (net of amortisation of deferred grants and contributions)	217.0	189.5
Profit on sale of fixed assets	(2.5)	(5.1)
Net movement in provisions	(10.8)	(4.8)
	<hr/> 624.7	<hr/> 584.4
Working capital:		
Increase in stocks	(4.9)	(1.1)
Increase in debtors	(17.4)	(46.1)
(Decrease)/increase in creditors	(6.7)	21.3
	<hr/> (29.0)	<hr/> (25.9)
Net cash inflow from operating activities	<hr/> 595.7	<hr/> 558.5

notes to the financial information

for the year ended 31 March

1. Accounting policies

The consolidated financial information for the group is for the year ended 31 March 2008 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 2008. The results have been extracted from the audited financial statements of the group for the year ended 31 March 2008. 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 2008 will be filed with the Registrar of Companies and copies will be available from the Company's registered office at Anglian House, Ambury Road, Huntingdon, Cambridgeshire, PE29 3NZ. The auditors' report on those accounts was unqualified and did not contain any statement under Section 237 of the Companies Act 1985. Statutory accounts for the year ended 31 March 2007, which incorporated an unqualified auditors' report, have been filed with the Registrar of Companies. The consolidated financial information should be read in conjunction with the annual report and accounts for the year ended 31 March 2008.

2. Net interest payable

	2008	2007
	£m	£m
Other loans including financing expenses	222.8	212.7
Indexation	94.5	64.3
Finance leases	4.3	5.7
Interest receivable from Anglian Water Services Holdings Limited	(193.6)	(193.1)
Other interest receivable	(32.1)	(30.3)
Net interest payable and similar items	95.9	59.3

3. Other finance (income)/charges

	2008	2007
	£m	£m
Unwinding of discount on provisions	1.0	1.0
Defined benefit pension scheme	(7.8)	(8.4)
Other finance income	(6.8)	(7.4)

notes to the financial information

for the year ended 31 March

4. Taxation

	2008 £m	2007 £m
a) Analysis of tax charge in the year		
Current tax:		
UK corporation tax	44.0	23.0
Adjustments in respect of previous periods	13.0	7.7
Total current tax charge	57.0	30.7
Deferred tax:		
(Credit)/charge for timing differences arising in year	(2.1)	21.1
Impact of discounting on deferred tax liability	(12.7)	(22.2)
Impact of decrease in discount rates	(0.1)	(12.2)
Discounted effect of movements in Advance Corporation Tax (ACT)	-	4.1
Discounted effect of changes to tax rate and industrial buildings allowances in Budget 2007	(13.8)	-
Reversal of prior year asset on share scheme	-	3.8
Adjustments in respect of previous periods	(8.1)	(7.5)
Total deferred tax credit	(36.8)	(12.9)
Total tax charge on profit on ordinary activities	20.2	17.8

The post-tax yield to maturity on UK Government bonds is used to discount the gross deferred tax liability of the group. Movements in the discount rates gave rise to a credit of £0.1 million (2007: credit of £12.2 million) in the year. If all UK gilt rates moved by 0.25 per cent a change in the tax charge of between £10.0 million to £15.0 million would occur.

The 2008 current tax charge includes a £12.2 million credit (2007: a charge of £6.7 million) from another Anglian Water Group Limited group undertaking for the utilisation of ACT.

The current tax adjustment for prior years relates to a prior year capital allowances disclaimer partially offset by an increase in the losses surrendered by Anglian Water Services Holdings Limited for which no payment is required. In 2007 the prior year tax charge related to a prior year capital allowance disclaimer partially offset by a release upon agreement of historical issues with HMRC.

The deferred tax adjustment for previous periods in 2008 includes a £5.5 million credit for the discounted effect of the restatement of the amount of ACT that can be utilised.

It has been agreed that the group will not pay for tax losses surrendered to it by Anglian Water Services Holdings Limited.

In addition to the current tax charge above, a £5.4 million credit for current tax has been recognised in the statement of total recognised gains and losses in relation to tax relief on pension contributions that are in excess of the pension cost charged to the profit and loss account.

notes to the financial information

for the year ended 31 March

4. Taxation (continued)

b) Factors affecting tax charge for the period

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

	2008	2007
	£m	£m
Profit on ordinary activities before tax	331.9	352.9
Profit on ordinary activities at the standard UK rate of Corporation Tax (30 per cent)	99.6	105.9
Effects of:		
Items not deductible for tax purposes	0.4	0.1
Items not taxable	(0.7)	-
Group relief utilised	(58.1)	(57.9)
Tax relief on employee exercise of share options	-	(4.2)
Depreciation not eligible for tax purposes	0.7	0.7
Depreciation for the year in excess of/(less than) capital allowances	1.8	(19.6)
Short-term timing differences	0.3	(2.0)
Adjustment to tax charge in respect of previous periods	13.0	7.7
Current tax charge for the year	57.0	30.7

5. Dividends

	2008	2007
	£m	£m
Previous year final dividend	35.0	35.0
Current year interim dividend	62.0	-
Special distribution	-	215.0
Dividend paid by the company and retained within the Anglian Water Services Financing group	194.1	192.6
Dividend committed to be paid by the company and retained within the Anglian Water Services Financing group	-	0.5
Dividend paid relating to the prior year	(0.5)	-
	290.6	443.1

A dividend of £194.1 million (2007: £192.6 million) was paid to Anglian Water Services Holdings Limited, a parent undertaking, in order for it to service the interest payable to the company on the inter-company loan of £1,609.1 million. This included £0.5 million which was committed to be paid in 2007 and was settled in year ended 31 March 2008.

The special distribution of £215.0 million was paid on 7 March 2007 as a financial restructuring dividend to increase gearing in the company following the change in ultimate ownership.

The Directors have proposed a final dividend for the year ended 31 March 2008 of 11.63 pence per share, which is a total of £100.0 million. This dividend has not been accounted for within the current year financial statements as it has been approved and paid subsequent to the year end.

notes to the financial information

for the year ended 31 March

6. Movement in shareholder's funds Group

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2007	860.0	632.9	1,492.9
Total recognised gains and losses for the period	-	255.2	255.2
Dividend paid and committed	-	(290.6)	(290.6)
At 31 March 2008	860.0	597.5	1,457.5

The profit and loss reserve includes £62.5 million (2007: £15.9 million) stated net of deferred taxation of £24.3 million (2007: £6.8 million) in respect of pension scheme liabilities.

Company

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2007	860.0	620.1	1,480.1
Profit on ordinary activities after taxation	-	298.7	298.7
Actuarial loss recognised in the pension scheme	-	(81.9)	(81.9)
Movement on current tax relating to the actuarial loss in the pension scheme	-	5.4	5.4
Movement on deferred tax relating to the actuarial loss in the pension scheme	-	19.2	19.2
Impact of change in tax rate on deferred tax	-	0.8	0.8
Dividend paid and committed	-	(290.6)	(290.6)
At 31 March 2008	860.0	571.7	1,431.7