

ANGLIAN WATER SERVICES LIMITED

Interim report

Six months ended 30 September 2006

anglianwater

ANGLIAN WATER SERVICES LIMITED

Interim statement

Summary

Results prepared in accordance with UK GAAP	2006/7 £m	2005/6 £m
Turnover	461.9	434.8
Operating costs	(160.9)	(158.3)
Depreciation	(90.0)	(95.9)
Total operating profit	211.0	180.6

Financial performance

Turnover for the period increased by 6.2 per cent, from £434.8 million in the prior period to £461.9 million. This reflects a 2.4 per cent inflationary increase in tariffs, coupled with underlying growth and a general increase in the base level of water used by both domestic and non-domestic customers.

Operating profit improved by 16.8 per cent to £211.0 million. This reflects primarily the increase in turnover and effective management of operating costs, despite continued upward cost pressures, particularly in relation to energy. Further initiatives have been introduced in the current period, the benefit of which will be seen in the second half of the year in some cases.

Depreciation is £5.9 million lower than the same period last year. This is mainly due to the impact of certain major short-life technology assets reaching the end of their depreciation period. Depreciation is expected to increase in the second half of the year as various major asset programmes move into the commissioning phase.

During the period Anglian Water raised £250 million of index-linked debt at rates ranging from 1.67 to 1.79 per cent. This will be used primarily to refinance existing, more expensive debt.

Anglian Water is committed to delivering a capital investment programme of £1.5 billion (at 2002/3 prices) in AMP4 (2005 to 2010). In the first half of the year, approximately £166 million was invested, which brings the total spend to date in AMP4 to £458 million. Anglian Water is on target to meet the second year of regulatory obligations for AMP4.

Reinvestment

The increased demand for water in the first half of the year led to turnovers that were higher than anticipated. In recognition of this, Anglian Water intends to reinvest over £50 million in new schemes that will further improve the resilience of its water supply network and help mitigate the impact of growth and climate change in the region.

The investment will be used to help reinforce water supply networks in Norfolk and Cambridgeshire. It will also be used to fund extensions to our existing metering programme, particularly in parts of Suffolk, one of the fastest-growing and driest parts of our region.

Customers bills will not be affected by this reinvestment, which is in addition to our existing five-year £1.5 billion programme. Anglian Water customers will continue to benefit from the lowest AMP4 bill increase of all Water and Sewerage Companies during this current asset management period, ending March 2010.

Water resources

Despite a second successive dry winter in 2005/6, in which the region received just over two-thirds (8 inches or 203 millimetres) of its usual rainfall between November and April, Anglian Water's overall water resources remained within normal operating limits throughout the period.

This position was achieved primarily as a result of maximising refill via pumping, strong leakage performance and the high proportion of metered customers (currently 58 per cent). Groundwater in the drier southern area of the region did fall below average levels, but have returned to normal levels in the autumn as rainfall increased.

Anglian Water is planning its water resources strategy on the assumption of a third successive dry winter, despite above average levels of rainfall in the autumn. Plans include increasing pumping capability at reservoirs, drilling additional boreholes in order to access aquifers and ways in which to improve the transfer of water within the region.

Operational performance

Ofwat's Overall Performance Assessment (OPA) for 2005/6 was published in November 2006. Anglian Water scored 388 points (2004/5: 408), placing it fifth out of the 10 water and sewerage companies. Scores for DG3 (interruption to supply) were affected by two burst water mains, which between them accounted for half the interruptions to supply for the year and brought down an otherwise good performance.

In addition, Anglian Water started AMP4 with a large number of new consent standards, which represented a significant operating challenge. Issues at two wastewater treatment plants led to consent breaches, which impacted negatively on the 2005/6 results. Remedial action has been implemented to improve performance in future years.

Anglian Water has met Ofwat's leakage target for 2005/6 and is on course to meet the 2006/7 target. At six cubic meters per kilometre of main per day, Anglian Water's leakage is one of the lowest in the UK and is around half the industry average.

Drinking water quality for the first half of the year remained high. From January to June of this year, 99.95 per cent of all water quality tests performed complied with regulatory standards (Full calendar year 2005: 99.95 per cent). Overall microbiological compliance for the period remains at a high level.

All 47 designated bathing waters in Anglian Water's region passed the mandatory coliform standards of the Bathing Water Directive. This is the eighth time in the last ten years that 100 per cent compliance has been achieved. Thirty-four of the bathing waters (72 per cent) also passed the guideline standard of the Directive (2005: 83 per cent). The slight reduction was largely due to adverse weather conditions at the end of the summer season.

The Environment Agency published its latest assessment of river water quality in the region in August, relating to the 2005 calendar year. The assessment showed that 98.7 per cent of rivers' biological quality was classed as "Very Good" to "Fair" (2004: 98.1 per cent). In 89.4 per cent of the region's rivers, chemical quality was in the "Very Good" to "Fair" range" (2004: 90.4 per cent).

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Consolidated income statement for the six months ended 30 September

Six months ended 30 September 2006					
Notes	Excluding transactions with AWS Holding companies Unaudited £m	Transactions with AWS Holding companies Unaudited £m	Total Unaudited £m	Six months ended 30 September 2005 Unaudited £m	Year ended 31 March 2006 Unaudited £m
	461.9	-	461.9	434.8	865.7
	(250.9)	-	(250.9)	(254.2)	(506.1)
	211.0	-	211.0	180.6	359.6
	Finance costs				
	(132.8)	-	(132.8)	(158.1)	(297.1)
	14.2	96.3	110.5	122.1	234.6
	(118.6)	96.3	(22.3)	(36.0)	(62.5)
	92.4	96.3	188.7	144.6	297.1
2	(26.3)	-	(26.3)	(17.6)	(49.2)
	66.1	96.3	162.4	127.0	247.9
3	(35.0)	(96.3)	(131.3)	(174.4)	(305.7)
	31.1	-	31.1	(47.4)	(57.8)

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

Notes	Six months ended 30 September 2006 Unaudited £m	Six months ended 30 September 2005 Unaudited £m	Year ended 31 March 2006 Unaudited £m
Profit on ordinary activities after taxation for the period	162.4	127.0	247.9
Actuarial (losses)/gains on defined benefit pension schemes	(1.9)	22.4	88.0
Movement on deferred tax relating to the actuarial gain in the pension scheme	0.6	(6.8)	(26.5)
2 Deferred tax on share based payments	-	-	3.8
Total recognised gains and losses for the period	161.1	142.6	313.2

Consolidated balance sheet at 30 September

	30 September 2006 Unaudited £m	30 September 2005 Unaudited £m	31 March 2006 Unaudited £m
Fixed assets			
Tangible assets	4,058.3	3,909.7	3,992.9
Investments	1,609.2	1,609.2	1,609.2
	5,667.5	5,518.9	5,602.1
Current assets			
Stock	12.2	9.0	10.6
Debtors	349.1	275.5	169.9
Cash at bank and in hand (including short-term deposits)	666.4	805.2	501.5
	1,027.7	1,089.7	682.0
Creditors: amounts falling due within one year			
Short-term borrowings	(177.6)	(163.7)	(202.4)
Other creditors	(512.0)	(401.2)	(377.4)
	(689.6)	(564.9)	(579.8)
Net current assets	338.1	524.8	102.2
Total assets less current liabilities	6,005.6	6,043.7	5,704.3
Creditors: amounts falling due after more than year			
Loans and other borrowings	(4,097.7)	(4,156.4)	(3,836.4)
Other creditors	(113.9)	(107.1)	(102.6)
Provisions for liabilities and charges	(143.4)	(141.7)	(139.2)
Defined benefit pension liabilities	(29.8)	(86.8)	(35.1)
Net assets	1,620.8	1,551.7	1,591.0
Capital and reserves			
Called up share capital	860.0	860.0	860.0
Profit and loss account	760.8	691.7	731.0
Total shareholder's funds (all equity)	1,620.8	1,551.7	1,591.0

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 2006 Unaudited £m	Six months ended 30 September 2005 Unaudited £m	Year ended 31 March 2006 Unaudited £m
(a) Net cash inflow from operating activities	277.7	262.3	527.6
Returns on investment and servicing of finance			
Interest received	108.2	169.7	282.5
Interest paid	(125.0)	(140.6)	(242.4)
Finance costs capitalised	(0.1)	(4.1)	(4.1)
Interest element of finance lease rental payments	(3.0)	(1.9)	(6.5)
Net cash inflow/(outflow) for returns on investment and servicing of finance	(19.9)	23.1	29.5
Taxation			
Corporation tax paid	(7.0)	-	(2.0)
Payments to other AWG Plc group undertakings	(13.2)	-	(5.4)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(168.9)	(113.6)	(263.3)
Grants and contributions received	15.3	9.6	23.9
Disposal of tangible fixed assets	1.1	0.1	2.0
Net cash outflow for capital expenditure and financial investment	(152.5)	(103.9)	(237.4)
Equity dividends paid	(131.3)	(174.4)	(305.7)
Net cash (outflow)/inflow before management of liquid resources and financing	(46.2)	7.1	6.6
Management of liquid resources			
Increase in short-term deposits and investments	-	95.8	95.8
Financing			
Increase in loans	250.0	403.4	404.0
Repayments of amounts borrowed	(27.9)	(435.5)	(728.1)
Capital element of finance lease rental payments	(11.0)	(9.6)	(20.8)
Net cash inflow/(outflow) from financing	211.1	(41.7)	(344.9)
Net increase/(decrease) in cash	164.9	61.2	(242.5)

Notes to the consolidated cash flow statement

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

	Six months ended 30 September 2006 Unaudited £m	Six months ended 30 September 2005 Unaudited £m	Year ended 31 March 2006 Unaudited £m
Operating profit	211.0	180.6	359.6
- Depreciation (net of amortisation of grants and contributions)	90.0	95.9	191.7
- Profit on disposal of fixed assets	(1.1)	-	(1.8)
- Net movement in provisions	(3.0)	(1.0)	(7.9)
Working capital:			
- Increase in stocks	(1.0)	(1.8)	(4.3)
- Increase in debtors	(176.9)	(86.4)	(38.5)
- Increase in creditors	158.7	75.0	28.8
Net cash inflow from operating activities	277.7	262.3	527.6

Notes to the consolidated financial statements

1. The consolidated financial information for the group is for the six months ended 30 September 2006 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 2006. 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 2006 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 2006.

2. Taxation

	Six months ended 30 September 2006 Unaudited £m	Six months ended 30 September 2005 Unaudited £m	Year ended 31 March 2006 Unaudited £m
Analysis of charge in the period			
Current tax	21.4	7.5	22.6
Deferred tax	4.9	10.1	26.6
Total taxation	26.3	17.6	49.2
Tax on items taken directly to equity			
Corporation tax credit on actuarial losses on defined benefit pension schemes offset in reserves	0.6	-	-
Deferred tax charge on actuarial gains on defined benefit pension schemes offset in reserves	-	(10.2)	(26.5)
Deferred tax credit on employee share options	-	-	3.8
	0.6	(10.2)	(22.7)

3. Dividends

The following dividends were paid by the group:

	Six months ended 30 September 2006 Unaudited £m	Six months ended 30 September 2005 Unaudited £m	Year ended 31 March 2006 Unaudited £m
Dividends paid within the ring fence companies	96.3	144.4	240.7
Dividends paid to the non-ring fence companies	35.0	30.0	65.0
	131.3	174.4	305.7

4. Movement in shareholder's funds

	Ordinary share capital £m	Profit and loss account £m	Total £m
At 1 April 2006	860.0	731.0	1,591.0
Total recognised gains and losses for the period	-	161.1	161.1
Dividends paid	-	(131.3)	(131.3)
At 30 September 2006	860.0	760.8	1,620.8