

Anglian Water Services Limited

**Interim report for the six months
ended 30 September 2007**

anglianwater

Anglian Water Services Limited

Interim statement

Summary

Results for the six months to 30 September 2007*	2007/8	2006/7
	£m	£m
Turnover	487.4	461.9
Operating costs	(169.5)	(160.9)
Depreciation	(102.9)	(90.0)
Operating profit	<u>215.0</u>	<u>211.0</u>

* Prepared in accordance with UK GAAP

Financial performance

Turnover for the period increased by 5.5 per cent, from £461.9 million in the prior period to £487.4 million. This was principally a result of the regulatory pricing formula, partly offset by a modest reduction in water usage by domestic customers due to a significantly cooler, wetter summer than last year.

Operating costs increased by 5.3 per cent compared with the prior period to £169.5 million. This reflected upward cost pressures across the business, particularly power prices and business rates, partly offset by further operating efficiencies. Dealing with the consequences of the floods in the early summer also contributed to increased costs. A company-wide energy reduction initiative delivered savings of £1.3 million in the first half.

The 14 per cent increase in depreciation reflects the continued investment in the capital programme, particularly in respect of below ground infrastructure assets. It also reflects substantial investment in a new billing system – Anglian Water’s largest IT investment to date - which went live successfully in December 2006.

Operating profit increased by 1.9 per cent to £215.0 million compared with the prior year as a result of the increased turnover, offset by the increase in operating costs and depreciation.

During the period Anglian Water raised an additional £75 million of index-linked debt to help fund its ongoing capital investment programme.

The AMP4 capital investment programme, which runs from 2005 to 2010, continues to track in line with the final determination, in terms of both outputs and predicted spending profile. For the first six months of this year, Anglian Water invested £208 million in the capital programme, compared to £166 million in the same period last year, an increase of 25.3 per cent.

Weather impacts

Extreme and unpredictable weather patterns represented an operational challenge in the first half of the year. Despite periods of high rainfall during the period, the region remains the driest in the country and is now defined by the Environment Agency as an 'area of high water stress'.

This status gives water companies additional powers, such as compulsory metering. However, at present, Anglian Water prefers to encourage customers to switch voluntarily. This approach is made possible by the high penetration level of meters, which at 62 per cent is twice the industry average, effective leakage control and year-round focus on water resources.

During the same period, the region has also experienced localised flooding as a result of extreme storms, particularly in Lincolnshire. Despite these extreme weather events and resultant challenges, Anglian Water's operational performance remained strong.

Operational performance

Ofwat announced recently that Anglian Water scored an industry-leading 413 points in its overall performance assessment for 2006/7, compared with an average score of 381 points by the 10 water and wastewater companies in England and Wales. Anglian Water was one of three companies to score more than 400 points.

Ofwat's overall performance assessment (OPA) encompasses a range of service measures, including water, wastewater and customer service performances, as well as impact on the environment. In the year to date, Anglian Water has continued to perform well from an operational perspective.

In August Ofwat also confirmed that Anglian Water's leakage was the lowest in the industry at 5.5 cubic metres of water per kilometre of main per day, beating its regulatory target for the fifth consecutive year. This performance is particularly positive given that the Anglian Water region is geographically the largest of any water company in England and Wales.

According to the latest published report from the Drinking Water Inspectorate, Anglian Water's drinking water quality remained high, with 99.95 per cent of tests complying with the regulatory standards in the 2006 calendar year.

All 47 designated bathing waters in the Anglian Water region passed the mandatory standards of the Bathing Water Directive. This is the ninth time in the past 11 years that 100 per cent compliance has been achieved. Of these, 70.2 per cent also passed the guideline standard of the Directive, one of the requirements for a beach to be awarded Blue Flag status.

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

Other

After a lengthy planning process and consultation with stakeholders, Anglian Water has gained permission to expand the water treatment capacity of the works serving its largest and most strategically important reservoir, Rutland Water.

The £100 million extension, which is due to begin in February 2008, is an essential part of Anglian Water's long-term water resource planning. The investment includes specific actions to mitigate any potential impact on the biodiversity of this Site of Special Scientific Interest.

Anglian Water will publish its Strategic Direction Statement for the period 2010 to 2035 on 14 December 2007.

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Consolidated income statement for the six months ended 30 September

Six months ended 30 September 2007					
Notes	Excluding transactions with AWS Holding companies Unaudited £m	Transactions with AWS Holding companies Unaudited £m	Total Unaudited £m	Six months ended 30 September 2006 Unaudited £m	Year ended 31 March 2007 Audited £m
		487.4	-	487.4	461.9
	(272.4)	-	(272.4)	(250.9)	(514.2)
	215.0	-	215.0	211.0	404.8
	Finance costs				
	(160.2)	-	(160.2)	(137.8)	(282.7)
	14.4	96.8	111.2	110.5	223.4
	5.2	-	5.2	5.0	7.4
	(140.6)	96.8	(43.8)	(22.3)	(51.9)
	74.4	96.8	171.2	188.7	352.9
2	(10.0)	-	(10.0)	(26.3)	(17.8)
	64.4	96.8	161.2	162.4	335.1
3	(35.0)	(96.8)	(131.8)	(131.3)	(443.1)
	29.4	-	29.4	31.1	(108.0)

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 2007 Unaudited £m	Six months ended 30 September 2006 Unaudited £m	Year ended 31 March 2007 Audited £m
Profit on ordinary activities after taxation for the period	161.2	162.4	335.1
Actuarial gains/(losses) on defined benefit pension schemes	0.4	(1.9)	14.8
Movement on deferred tax relating to the actuarial gain in the pension scheme	(0.1)	0.6	(5.1)
Total recognised gains and losses for the period	161.5	161.1	344.8

Consolidated balance sheet at 30 September

	30 September 2007 Unaudited £m	30 September 2006 Unaudited £m	31 March 2007 Audited £m
Fixed assets			
Tangible assets	4,301.0	4,058.3	4,207.1
Investments	1,609.2	1,609.2	1,609.2
	5,910.2	5,667.5	5,816.3
Current assets			
Stock	15.8	12.2	11.7
Debtors	374.7	349.1	215.7
Investments – money market deposits	312.5	-	242.0
Cash at bank and in hand (including short-term deposits)	231.2	666.4	311.9
	934.2	1,027.7	781.3
Creditors: amounts falling due within one year			
Short-term borrowings	(303.4)	(177.6)	(78.6)
Other creditors	(547.7)	(512.0)	(406.8)
	(851.1)	(689.6)	(485.4)
Net current assets	83.1	338.1	295.9
Total assets less current liabilities	5,993.3	6,005.6	6,112.2
Creditors: amounts falling due after more than one year			
Loans and other borrowings	(4,252.8)	(4,097.7)	(4,371.5)
Other creditors	(117.1)	(113.9)	(112.3)
Provisions for liabilities and charges	(95.0)	(143.4)	(119.6)
Defined benefit pension liabilities	(31.5)	(29.8)	(31.7)
Defined benefit pension assets	25.7	-	15.8
Net assets	1,522.6	1,620.8	1,492.9
Capital and reserves			
Called up share capital	860.0	860.0	860.0
Profit and loss account	662.6	760.8	632.9
Total shareholder's funds	1,522.6	1,620.8	1,492.9

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 2007 Unaudited £m	Six months ended 30 September 2006 Unaudited £m	Year ended 31 March 2007 Audited £m
(a) Net cash inflow from operating activities	281.7	277.7	558.5
Returns on investment and servicing of finance			
Interest received	112.7	108.2	223.6
Interest paid	(129.2)	(125.0)	(217.2)
Finance costs capitalised	(0.1)	(0.1)	(0.4)
Interest element of finance lease rental payments	(0.8)	(3.0)	(5.9)
Net cash (outflow)/inflow for returns on investment and servicing of finance	(17.4)	(19.9)	0.1
Taxation			
Corporation tax paid	(0.6)	(7.0)	(10.1)
Payments to other AWG Plc group undertakings	-	(13.2)	(24.3)
	(0.6)	(20.2)	(34.4)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(218.2)	(168.9)	(416.0)
Grants and contributions received	16.1	15.3	33.0
Disposal of tangible fixed assets	0.1	1.1	5.6
Net cash outflow for capital expenditure and financial investment	(202.0)	(152.5)	(377.4)
Equity dividends paid	(131.3)	(131.3)	(442.6)
Net cash outflow before management of liquid resources and financing	(69.6)	(46.2)	(295.8)
Management of liquid resources			
Increase in short-term deposits and investments	(2.6)	-	(23.7)
Net cash outflow from management of liquid resources	(2.6)	-	(23.7)
Financing			
Increase in loans	75.0	250.0	550.0
Repayments of amounts borrowed	(2.7)	(27.9)	(177.9)
Capital element of finance lease rental payments	(12.9)	(11.0)	(23.9)
Net cash inflow from financing	59.4	211.1	348.2
Net (decrease)/increase in cash	(12.8)	164.9	28.7

Notes to the consolidated cash flow statement

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

	Six months ended 30 September 2007 Unaudited £m	Six months ended 30 September 2006 Unaudited £m	Year ended 31 March 2007 Audited £m
Operating profit	215.0	211.0	404.8
- Depreciation (net of amortisation of grants and contributions)	102.9	90.0	189.5
- Profit on disposal of fixed assets	(0.1)	(1.1)	(5.1)
- Net movement in provisions	(10.9)	(3.0)	(4.8)
	306.9	296.9	584.4
Working capital:			
- Increase in stocks	(4.1)	(1.0)	(1.1)
- Increase in debtors	(160.6)	(176.9)	(46.1)
- Increase in creditors	139.5	158.7	21.3
	(25.2)	(19.2)	(25.9)
Net cash inflow from operating activities	281.7	277.7	558.5

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 2007 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 2007. 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 2007 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 2007.

2. Taxation

	Six months ended 30 September 2007 Unaudited £m	Six months ended 30 September 2006 Unaudited £m	Year ended 31 March 2007 Audited £m
Analysis of charge in the period			
Current tax	28.5	21.4	30.7
Deferred tax	(18.5)	4.9	(12.9)
Total taxation	10.0	26.3	17.8
Tax on items taken directly to equity			
Deferred tax charge/(credit) on actuarial gains/(losses) on defined benefit pension schemes offset in reserves	(0.1)	0.6	(5.1)
	(0.1)	0.6	(5.1)

3. Dividends

The following dividends were paid and committed by the group:

	Six months ended 30 September 2007 Unaudited £m	Six months ended 30 September 2006 Unaudited £m	Year ended 31 March 2007 Audited £m
Dividends paid and committed within the ring fence companies	96.8	96.3	193.1
Dividends paid to the non-ring fence companies	35.0	35.0	250.0
	131.8	131.3	443.1

4. Movement in shareholder's funds

	Ordinary 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	-	161.5	161.5
Dividends paid	-	(131.8)	(131.8)
At 30 September 2007	860.0	662.6	1,522.6

END