

**Anglian Water Services Limited**

**Interim report for the six months  
ended 30 September 2008**

**anglianwater**

## Anglian Water Services Limited

### Interim statement for the six months ended 30 September 2008

#### Summary

Results for the six months to 30 September *	2008/9	2007/8
	£m	£m
Turnover	525.8	487.4
Operating costs	(183.3)	(169.5)
Depreciation	(112.6)	(102.9)
Operating profit	<u>229.9</u>	<u>215.0</u>

\*Prepared in accordance with UK GAAP

Turnover for the period was £525.8 million, an increase of 7.9 per cent compared to the same period last year. This increase was due principally to the regulatory pricing formula.

Operating costs were up £13.8 million (8.1 per cent) on the prior period to £183.3 million. There have been significant increases in power and commodity prices in the period, which are partly offset by our continued focus on sustainable cost reduction initiatives. In addition there were one-off costs of £5.5 million relating to the water quality incident in Northamptonshire, which is described below. These costs will be borne by Anglian Water and will not be passed on to customers in any form.

There are early signs of increasing difficulty in collecting customer debt, in the face of worsening economic conditions, and consequently we have increased our bad debt provision compared to the same period last year.

There has been a 9.4 per cent increase in the depreciation charge compared with the same period last year. Approximately half of this increase is due to taking a longer term view of the expenditure on below ground infrastructure, and the remaining increase is consistent with the continued investment in the capital programme.

Operating profit has grown by 6.9 per cent to £229.9 million as a result of the increased turnover, partially offset by the increases in operating costs and depreciation.

In May Anglian Water had a successful private debt placement in Japan, followed in June by a Eurobond issue, which between them raised £419 million of new funds at favourable rates. These new funds are adequate to finance the remainder of the capital programme for the current regulatory period, which ends in 2010.

Capital expenditure in the period remains on track with our commitment for the current Asset Management Plan (AMP) period which covers 2005 to 2010. During the first half of the year Anglian Water invested £203 million in the capital programme, compared with £208 million for the same period last year.

## **Operational performance**

In October, Ofwat announced that Anglian Water had achieved the highest score in the industry for the second consecutive year in its overall performance assessment (OPA) for 2007/8. Anglian Water scored 419 points (2006/7: 413), compared with an average score of 383 points by the 10 water and wastewater companies in England and Wales.

The 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.

Investment in leakage in 2007/8 was reduced to normal levels in response to higher rainfall and availability of water resources. As anticipated, this led to a slight increase in leakage which Ofwat reported to be 5.6 cubic metres of water per kilometre of main per day (2007: 5.5 m<sup>3</sup> per km/day). This performance maintains Anglian Water's position as one of the best performing companies in terms of leakage management.

According to the latest published report from the Drinking Water Inspectorate, Anglian Water's drinking water quality remained high, with 99.96 per cent 'mean zonal compliance' against the regulatory standards in the 2007 calendar year (2006: 99.95 per cent).

All 46 designated bathing waters in the Anglian Water region passed the mandatory standards of the Bathing Water Directive during this year's bathing water season. This is the tenth time in the past 12 years that 100 per cent compliance has been achieved. Of these, 73.9 per cent also passed the guideline standard of the Directive, one of the requirements for a beach to be awarded Blue Flag status. This is a marked improvement on the previous year (68.1 per cent), which was achieved despite poor weather conditions during the bathing water season.

The Environment Agency (EA) published its latest assessment of river water quality in the region in August, relating to the 2007 calendar year. The assessment showed that 99.8 per cent of rivers' biological quality was classed as 'very good' to 'fair' (2006: 99.8 per cent). The chemical quality of rivers remained at 92.1 (2006: 92.3) per cent in the 'very good' to 'fair' range. These results have been recalculated by the EA, following a reduction in the number of rivers being measured.

## **Northamptonshire water quality incident**

On 24 June routine tests detected traces of cryptosporidium, a microscopic parasite, in water coming from the Pitsford water treatment works, which supplies approximately 106,000 homes in Northampton, Daventry and the surrounding area. Cryptosporidium can lead to illness if ingested.

Further tests confirmed the presence of cryptosporidium and the decision was taken to instruct customers to boil their water before drinking. A notice was sent to customers affected and a coordinated media and communications programme was initiated to keep affected customers and other stakeholders informed throughout the incident.

The decision to lift the notice for all affected customers was taken, ahead of schedule, 10 days later on 4 July following the success of the considerable operational effort and resource

committed to the incident, including the installation of ultraviolet treatment and an accelerated cleaning, flushing and testing programme.

The cause of the cryptosporidium was traced to a small rabbit, which had entered an isolated part of the works. Following the incident, Anglian Water submitted its report to the Drinking Water Inspectorate (DWI), which published its independent assessment of the incident in November. While the report was critical of the failures that led to the incident, it highlighted "how it was Anglian Water's own robust monitoring procedures which raised the alarm and secured a quick and effective multi agency response". The DWI has confirmed that there will be no prosecution as a result of this incident.

In recognition of the inconvenience caused to its customers Anglian Water made goodwill payments to those affected. The total cost of the cleaning, flushing, mitigation programme and goodwill payments amounted to £5.5 million.

### **Price review**

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

In August, Anglian Water submitted its draft business plan for AMP5, which covers the period 2010-2015. The report took into account a considerable amount of research among customers. It is also set in the context of Anglian Water's 25-year Strategic Direction Statement, published in November 2007, which identified regional growth and climate change as the company's key long-term challenges.

Anglian Water is proposing a £2.5 billion capital investment programme for AMP5. This equates to an increase in the average household bill from £360 in 2010 to £373 in 2015 in real terms. This is equivalent to an annual increase of 0.7 per cent.

Final business plans are due to be submitted in April 2009, with Ofwat's final determination being announced in November 2009. The new prices will come into effect in April 2010, the beginning of the new AMP period.

END

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# Consolidated income statement for the six months ended 30 September

	Six months ended 30 September 2008			Six months ended 30 September 2007 Unaudited £m	Year ended 31 March 2008 Audited £m
	Excluding transactions with AWS Holding companies Unaudited £m	Transactions with AWS Holding companies Unaudited £m	Total Unaudited £m		
<b>Notes</b>					
<b>Turnover</b>	<b>525.8</b>	-	<b>525.8</b>	487.4	969.2
<b>Group operating costs</b>	<b>(295.9)</b>	-	<b>(295.9)</b>	(272.4)	(548.2)
<b>Group operating profit</b>	<b>229.9</b>	-	<b>229.9</b>	215.0	421.0
<b>Finance costs</b>					
Interest payable and similar charges	(176.0)	-	(176.0)	(160.2)	(321.6)
Interest receivable	21.2	97.3	118.5	111.2	225.7
Other finance (charges)/income	(2.7)	-	(2.7)	5.2	6.8
<b>Finance costs (net)</b>	<b>(157.5)</b>	<b>97.3</b>	<b>(60.2)</b>	(43.8)	(89.1)
<b>Profit on ordinary activities before taxation</b>	<b>72.4</b>	<b>97.3</b>	<b>169.7</b>	171.2	331.9
2 Tax on profit on ordinary activities	(16.2)	-	(16.2)	(10.0)	(20.2)
<b>Profit on ordinary activities after taxation for the period</b>	<b>56.2</b>	<b>97.3</b>	<b>153.5</b>	161.2	311.7
3 Dividends paid and committed	(100.0)	(97.3)	(197.3)	(131.8)	(290.6)
<b>(Loss)/profit for the period</b>	<b>(43.8)</b>	-	<b>(43.8)</b>	29.4	21.1

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

	<b>Six months ended 30 September 2008 Unaudited £m</b>	Six months ended 30 September 2007 Unaudited £m	Year ended 31 March 2008 Audited £m
<b>Profit on ordinary activities after taxation for the period</b>	<b>153.5</b>	161.2	311.7
Actuarial gains/(losses) recognised in the pension scheme	<b>33.9</b>	0.4	(81.9)
Movement on current tax relating to the actuarial loss in the pension scheme	-	-	5.4
Movement on deferred tax relating to the actuarial (gain)/loss in the pension scheme	<b>(9.5)</b>	(0.1)	19.2
Impact of change in tax rate on deferred tax	-	-	0.8
<b>Total recognised gains and losses for the period</b>	<b>177.9</b>	161.5	255.2

# Consolidated balance sheet at 30 September

	<b>30 September 2008 Unaudited £m</b>	30 September 2007 Unaudited £m	31 March 2008 Audited £m
<b>Fixed assets</b>			
Tangible assets	<b>4,464.5</b>	4,301.0	4,388.3
Investments	<b>1,609.1</b>	1,609.2	1,609.1
	<b>6,073.6</b>	5,910.2	5,997.4
<b>Current assets</b>			
Stock	<b>14.6</b>	15.8	16.6
Debtors	<b>429.7</b>	374.7	232.7
Investments – money market deposits	<b>166.3</b>	312.5	170.0
Cash at bank and in hand (including short-term deposits)	<b>554.9</b>	231.2	522.3
	<b>1,165.5</b>	934.2	941.6
<b>Creditors: amounts falling due within one year</b>			
Short-term borrowings	<b>(300.2)</b>	(303.4)	(291.1)
Other creditors	<b>(516.6)</b>	(547.7)	(401.3)
	<b>(816.8)</b>	(851.1)	(692.4)
<b>Net current assets</b>	<b>348.7</b>	83.1	249.2
<b>Total assets less current liabilities</b>	<b>6,422.3</b>	5,993.3	6,246.6
<b>Creditors: amounts falling due after more than year</b>			
Loans and other borrowings	<b>(4,749.0)</b>	(4,252.8)	(4,525.4)
Other creditors	<b>(127.6)</b>	(117.1)	(123.8)
<b>Provisions for liabilities and charges</b>	<b>(70.9)</b>	(95.0)	(77.4)
<b>Defined benefit pension liabilities</b>	<b>(36.7)</b>	(31.5)	(62.5)
<b>Defined benefit pension assets</b>	<b>-</b>	25.7	-
<b>Net assets</b>	<b>1,438.1</b>	1,522.6	1,457.5
<b>Capital and reserves</b>			
Called up share capital	<b>860.0</b>	860.0	860.0
Profit and loss account	<b>578.1</b>	662.6	597.5
<b>Total shareholder's funds (all equity)</b>	<b>1,438.1</b>	1,522.6	1,457.5

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

# Consolidated cash flow statement for the six months ended 30 September

Notes	<b>Six months ended 30 September 2008 Unaudited £m</b>	Six months ended 30 September 2007 Unaudited £m	Year ended 31 March 2008 Audited £m
(a) <b>Net cash inflow from operating activities</b>	<b>299.1</b>	281.7	595.7
<b>Returns on investment and servicing of finance</b>			
Interest received	<b>116.1</b>	112.7	226.0
Interest paid	<b>(130.9)</b>	(129.2)	(220.5)
Finance costs capitalised	<b>(1.8)</b>	(0.1)	(0.4)
Interest element of finance lease rental payments	<b>0.1</b>	(0.8)	(4.9)
<b>Net cash (outflow)/inflow for returns on investment and servicing of finance</b>	<b>(16.5)</b>	(17.4)	0.2
<b>Taxation</b>			
Corporation tax paid	-	(0.6)	3.8
Payments to other Anglian Water Group Limited group undertakings	<b>(15.6)</b>	-	(29.6)
	<b>(15.6)</b>	(0.6)	(25.8)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	<b>(235.3)</b>	(218.2)	(447.6)
Grants and contributions received	<b>14.1</b>	16.1	33.5
Disposal of tangible fixed assets	<b>0.2</b>	0.1	2.5
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(221.0)</b>	(202.0)	(411.6)
<b>Equity dividends paid</b>	<b>(196.8)</b>	(131.3)	(291.1)
<b>Net cash outflow before management of liquid resources and financing</b>	<b>(150.8)</b>	(69.6)	(132.6)
<b>Management of liquid resources</b>			
Increase in short-term deposits and investments	<b>(27.1)</b>	(2.6)	(98.8)
Net cash outflow from management of liquid resources	<b>(27.1)</b>	(2.6)	(98.8)
<b>Financing</b>			
Increase in loans	<b>419.1</b>	75.0	300.9
Repayments of amounts borrowed	<b>(238.2)</b>	(2.7)	(2.7)
Capital element of finance lease rental payments	<b>(1.2)</b>	(12.9)	(27.2)
<b>Net cash inflow from financing</b>	<b>179.7</b>	59.4	271.0
<b>Net increase/(decrease) in cash</b>	<b>1.8</b>	(12.8)	39.6

## Notes to the consolidated cash flow statement

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

	<b>Six months ended 30 September 2008 Unaudited £m</b>	Six months ended 30 September 2007 Unaudited £m	Year ended 31 March 2008 Audited £m
Operating profit	<b>229.9</b>	215.0	421.0
- Depreciation (net of amortisation of grants and contributions)	<b>112.6</b>	102.9	217.0
- Profit on disposal of fixed assets	<b>(0.2)</b>	(0.1)	(2.5)
- Net movement in provisions	<b>(6.2)</b>	(10.9)	(10.8)
	<b>336.1</b>	306.9	624.7
Working capital:			
- Decrease/(increase) in stocks	<b>2.0</b>	(4.1)	(4.9)
- Increase in debtors	<b>(194.0)</b>	(160.6)	(17.4)
- Increase/(decrease) in creditors	<b>155.0</b>	139.5	(6.7)
	<b>(37.0)</b>	(25.2)	(29.0)
<b>Net cash inflow from operating activities</b>	<b>299.1</b>	281.7	595.7

## 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 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 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 2008 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 2008.

### 2. Taxation

	<b>Six months ended 30 September 2008 Unaudited £m</b>	Six months ended 30 September 2007 Unaudited £m	Year ended 31 March 2008 Audited £m
<b>Analysis of charge in the period</b>			
Current tax	22.1	28.5	57.0
Deferred tax	(5.9)	(18.5)	(36.8)
Total taxation charge	<b>16.2</b>	10.0	20.2
<b>Tax on items taken directly to equity</b>			
Deferred tax charge on actuarial gains on defined benefit pension schemes offset in reserves	(9.5)	(0.1)	19.2

### 3. Dividends

The following dividends were paid by the group:

	<b>Six months ended 30 September 2008 Unaudited £m</b>	Six months ended 30 September 2007 Unaudited £m	Year ended 31 March 2008 Audited £m
Dividends paid and committed within the ring fence companies	97.3	96.8	193.6
Dividends paid to the non-ring fence companies	100.0	35.0	97.0
	<b>197.3</b>	131.8	290.6

### 4. Movement in shareholder's funds

	<b>Ordinary share capital £m</b>	<b>Profit and loss account £m</b>	<b>Total £m</b>
At 1 April 2008	860.0	597.5	1,457.5
Total recognised gains and losses for the period	-	177.9	177.9
Dividends paid and committed	-	(197.3)	(197.3)
<b>At 30 September 2008</b>	<b>860.0</b>	<b>578.1</b>	<b>1,438.1</b>