

Anglian Water Services Limited

Preliminary accounts for the year
ended 31 March 2010

anglianwater

For immediate release
28 May 2010

Anglian Water Services Limited
Financial results for year ended 31 March 2010

Cold weather fails to dampen success of Anglian Water

Commenting on the company's financial results for the year ended March 31 2010, Peter Simpson, Anglian Water's Managing Director, said:

“The last twelve months have been particularly challenging for Anglian Water. The recession, which has affected both customers and our business, was compounded by the worst winter weather for thirty years.

“However, a focus on forward planning and finding further efficiencies within the business allowed us to deliver a strong set of financial and operational results.

“I’m particularly pleased that, despite another cold winter, we still hit our challenging targets for reducing leakage. This is the ninth year in succession we have achieved this.

“Again, despite the appalling weather conditions, we achieved 100 per cent compliance at all of our 1,100 sewage treatment works¹.

“And finally, our focus on service improvement has been successful and delivered a 28 per cent reduction in written complaints.

“I am extremely proud of the team at Anglian Water who have ensured that this level of performance has been maintained over the last year, despite the difficult economic situation, and extremely challenging weather conditions.

“During the year, as part of a planned succession programme, Jonson Cox relinquished his role as Chief Executive Officer. He led the company successfully through a period of significant transformation, and we are grateful for the vision and leadership he brought to the business.

“2009/10 marks the end of the five-year investment period 2005/10 (AMP4). We were one of the few companies recognised and rewarded for sustained exceptional performance throughout AMP4 in Ofwat’s Overall Performance Assessment of water companies.

“We now look forward to the next five years, when we will invest over £2 billion in the region as we tackle the increasingly tough challenges of climate change and growth. We will increase our efficiency and customer service performance as we also reduce the average bill for customers by £28 over the five years to 2014/15. A very challenging task, but one that we are confident we can deliver.”

Financial summary¹

	2010 £m	2009 £m
Turnover	1,099.8	1,037.4
Operating costs (before exceptional costs)	(386.1)	(363.5)
Depreciation ²	(241.7)	(228.3)
Exceptional costs	(8.8)	-
Operating profit	463.2	445.6

Turnover for the year was £1,099.8 million, an increase of 6.0 per cent over the previous year due principally to the regulatory pricing formula. Business volumes in the year remained steady despite the recession in the wider economy.

Operating costs (before exceptional costs) for the year increased by £22.6 million (6.2 per cent) to £386.1 million (2009: £363.5 million). The charge for bad debts increased by £13.5 million compared with the previous year, reflecting an increased level of customer debt which we believe is a consequence of the recessionary environment. We are in the process of implementing new debt management processes to help us work effectively with our customers during this difficult economic period.

Other significant cost increases comprised power, rates and operating costs for newly completed infrastructure assets. Partially offsetting these cost increases were some £9 million of savings resulting from this year's efficiency initiatives, including reducing energy consumption, supply chain savings and productivity improvements.

Overall, operating expenditure (before exceptional costs) as a percentage of turnover increased slightly from 35.0 per cent last year to 35.1 per cent.

During the year we embarked on a reorganisation to prepare for the AMP5 period (2010/15) which gave rise to exceptional costs of £8.8 million. This involved the introduction of more flexible working practices in operational areas, a review of support services and renegotiating key supplier contracts. The principal costs relate to redundancies and one-off staff compensation payments for changes to their contractual terms of employment.

¹ Extracted from audited consolidated profit and loss account as presented on page 9 of this announcement, and prepared in accordance with UK GAAP

² Depreciation net of amortisation of grants and contributions

As a result of the continuing capital programme, depreciation (net of amortisation of grants and contributions) was up 5.9 per cent from £228.3 million last year to £241.7million.

Net interest payable and other finance charges (excluding the intra-group interest receivable of £193.1 million, 2009: £193.6 million) decreased by 16.0 per cent from £308.9 million in 2009 to £259.5 million in 2010. This primarily reflects the impact of lower RPI in the year on index-linked debt, partially offset by the reduction in deposit income caused by the historically low base rate.

The tax charge has increased by £38.7 million to £51.7 million. The increase is primarily due to higher taxable profits and a lower deferred tax credit arising from discounting compared to the prior year; together with an additional charge due to Advance Corporation Tax (ACT) utilisation from another Anglian Water Group company.

In the year to 31 March 2010 Anglian Water raised £204.6 million of new funds and made repayments totalling £298.3 million on maturing bonds and £2.2 million on finance leases. In addition to this, the subordinated intra-group loan of £90.0 million, which was provided by the shareholder consortium as a precautionary measure to maintain and improve near-term debt covenants at March 2009, was repaid in full in July 2009 to Osprey Holdco Limited, and repaid to the consortium in February 2010. New bank facilities totalling £355 million were successfully negotiated on a forward starting basis, which will replace £225 million of current undrawn facilities when they expire in July 2010. In addition, a further £130 million of funds were raised in May 2010 through the successful issuance of a new index-linked bond.

Capital expenditure

2009/10

Gross capital expenditure for the year was £350.5 million, £105.3 million of which was delivered by an alliance of six partner companies working in close co-operation with Anglian Water.

Successful completion of AMP4 investment programme

The total capital investment in the AMP4 period (2005/10) was approximately £2,005 million (at 2009/10 prices), compared with £1,960 million in the Final Determination. The capital investment figure includes c. £40 million of unfunded expenditure the company made in enhancing resilience of supply and £55 million of new connections charges against which we received new connections income. We have met all of our AMP4 obligations.

During the final year of AMP4 we completed five nitrate schemes and two enhanced sludge treatment centres and provided first time sewerage to some 2,000 properties. We have also completed schemes to reduce phosphorus levels in effluent from 24 of our wastewater treatment works under the Habitats

Directive. The proportion of household properties on a metered charge increased to 66 per cent (2009: 64 per cent).

We substantially completed our biggest project since privatisation at Rutland Water in March 2010, delivering our Wing expansion scheme. This £116 million project combines facilities for abstraction and treatment of water, with the creation of additional wildlife habitats at the reservoir. Rutland Water is a Site of Special Scientific Interest, one of only three nest sites for ospreys in England and home to internationally important numbers of water fowl. The associated new treatment works at Morcott, near Rutland Water, was commissioned in March 2010. It will supply drinking water to up to a million customers in some of the region's biggest towns, including Peterborough, Bedford and Milton Keynes, and provide additional resilience of supply to the surrounding areas.

Operational performance

In 2008/09 Ofwat's Operational Performance Assessment (OPA) placed us in the top two for the third consecutive year, confirming our position as one of the UK's leading water and wastewater companies. We consolidated this position in 2009/10 with a provisional score of 415 (2008/09: 415), which we believe will again place us amongst the best in the industry.

Water efficiency

2009/10 was the coldest winter for 30 years. Snow cover, and frost in particular, placed a strain on our assets. However, despite the increase in bursts caused by the severe weather, we maintained our service levels and met our 2009/10 leakage target of 210 megalitres per day.

In addition to our continued investment in minimising leakage, we vigorously promote and encourage all our customers to use water efficiently. Switching customers to meters and retro-fitting water efficient devices are vital elements of our supply-demand investment plan for 2010/15 (AMP5).

We work with a range of partners throughout our region on water efficiency messages and initiatives, including other water supply companies in our region, planning authorities and the Environment Agency. This will continue to be a priority in AMP5.

Customer service

We aim to provide excellent customer service and monitor our performance against a suite of measures reflecting what our customers tell us they value. This year's high Customer Service Index score of 125 (2008/09: 113) reflects the priority we place on meeting our customers' needs, with particular emphasis on reducing the number of complaints, speedier complaint resolution and the even more rapid recovery of service failures. Levels of service were consistently above 90 per cent this year, up from 88 per cent to 92 per cent overall, year on year. We've also reduced written complaints by 28 per cent.

We welcome Ofwat's introduction of the Service Incentive Mechanism for AMP5, and recognise the opportunity it offers us to improve further the levels of service our customers can expect from us.

Drinking water quality

Our drinking water quality continued to be excellent in 2009, with an overall compliance score of 99.96 per cent (2008: 99.98 per cent). The slight reduction from 2008 in this year's score is due in part to the start of regulatory monitoring of the pesticides metaldyhyde and clopyralid.

Over the past five years we've completed 28 schemes to enhance water quality, including 24 nitrate reduction schemes. We plan to invest around £120 million in drinking water quality enhancements in AMP5. This programme includes schemes to work together with the agricultural community on ways to cut the levels of pesticides and nitrates entering rivers and aquifers in the first place, emphasising the responsible and sustainable use of these chemicals.

Bathing water quality

Bathing water results were very good for the Anglian Water region in 2009. All 46 bathing waters in our region met the *mandatory* standards of the Bathing Water Regulations for the eighth year running (2008: 46).

In addition, 35 bathing waters (76.1 per cent) also met the Regulations' more stringent *guideline* standards (2008: 73.9 per cent).

Water quality at *guideline* level is one of the 32 requirements a beach must meet to be awarded Blue Flag status, which also considers a range of other environmental and amenity factors. Application for Blue Flag status is at the discretion of individual resorts. Based on the 2009 data, 15 beaches in our region will fly Blue Flags in 2010 (2009:17).

Pollution

Our performance on pollution demonstrates our strong commitment to avoiding and reducing pollution incidents. We have driven the number of category one and two pollution incidents down from ten in 2008 to eight in 2009.

Our levels of performance on wastewater compliance continued to improve significantly, with, in December 2009, every one of our wastewater treatment works operating in line with Water Resources Act Look-up Tables consents.

A frequent cause of pollution incidents is blockages caused by the inappropriate use of the public sewer for the disposal of waste. This is, in effect, underground fly-tipping, and it costs us in the region of £5 million every year. Our high-profile campaign continues to reach domestic and business customers with the information they need on the correct disposal of fats, oils and grease.

Leading the company for AMP5

Peter Simpson became Managing Director of Anglian Water Services Limited on 7 January 2010. This was in planned succession to Chief Executive Jonson Cox, who resigned as Chairman and Director of Anglian Water Services Limited on 29 January 2010 after six years with the company.

Peter Simpson was previously Anglian Water's Chief Operating Officer. This continuity of management ensures the company is well-placed to meet the considerable challenges of AMP5.

- Ends -

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.

Notes to editors

¹: Compliant with Water Resources Act Look-up Tables (WRA LUT) for calendar year 2009

Ofwat (The Water Services Regulation Authority) is the economic regulator of the water and sewerage sectors in England and Wales.

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Group profit and loss account

for the year ended 31 March

Notes	2010 £m	2009 £m
Turnover	1,099.8	1,037.4
Operating costs:		
- Operating costs before depreciation and exceptional operating costs	(386.1)	(363.5)
- Depreciation net of amortisation of grants and contributions	(241.7)	(228.3)
- Exceptional operating costs	(8.8)	-
Total operating costs	<u>(636.6)</u>	<u>(591.8)</u>
Operating profit	463.2	445.6
2 Net interest payable	(51.8)	(105.9)
3 Other finance charges	<u>(14.6)</u>	<u>(9.4)</u>
Profit on ordinary activities before taxation	396.8	330.3
4 Tax on profit on ordinary activities	(51.7)	(13.0)
Profit for the financial year	<u>345.1</u>	<u>317.3</u>

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

10

	2010 £m	2009 £m
Profit for the financial year	345.1	317.3
Actuarial losses recognised in the pension scheme	(108.5)	(15.7)
Current tax relating to the actuarial loss in the pension scheme	3.1	1.0
Movement on deferred tax relating to the actuarial loss in the pension scheme	27.2	3.4
Total recognised gains and losses relating to the year	266.9	306.0

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

Group and company balance sheets
at 31 March

Notes	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Fixed assets				
Tangible assets	4,658.1	4,567.9	4,658.1	4,567.9
Investments	1,609.1	1,609.1	1,609.1	1,609.1
	6,267.2	6,177.0	6,267.2	6,177.0
Current assets				
Stocks	10.1	12.8	10.1	12.8
Debtors	311.6	263.1	311.6	559.2
Investments – money market deposits	78.5	-	63.5	-
Cash at bank and in hand (including short-term deposits)	598.5	913.3	574.5	574.7
	998.7	1,189.2	959.7	1,146.7
Creditors: amounts falling due within one year				
Short-term borrowings	(2.5)	(300.4)	(2.5)	(300.4)
Other creditors	(451.8)	(448.3)	(456.2)	(448.4)
	(454.3)	(748.7)	(458.7)	(748.8)
Net current assets	544.4	440.5	501.0	397.9
Total assets less current liabilities	6,811.6	6,617.5	6,768.2	6,574.9
Creditors: amounts falling due after more than one year				
Loans and other borrowings	(5,029.7)	(4,900.3)	(5,029.7)	(4,900.3)
Other creditors	(133.7)	(126.3)	(133.7)	(126.3)
Provisions for liabilities	(51.0)	(49.9)	(51.0)	(49.9)
Defined benefit pension liabilities	(141.2)	(71.1)	(141.2)	(71.1)
Net assets including pension liabilities	1,456.0	1,469.9	1,412.6	1,427.3
Capital and reserves				
6 Called up share capital	860.0	860.0	860.0	860.0
6 Profit and loss account	596.0	609.9	552.6	567.3
Total shareholder's funds	1,456.0	1,469.9	1,412.6	1,427.3

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

Group cash flow statement

for the year ended 31 March

Notes	2010	2009
(a)	£m	£m
Net cash inflow from operating activities	658.8	630.5
Returns on investments and servicing of finance		
Interest received	197.0	230.7
Interest paid	(225.8)	(218.9)
Issue costs of new debt issued	(1.5)	(2.6)
Interest element of finance lease rental payments	(3.4)	(3.7)
Net cash (outflow)/inflow from returns on investments and servicing of finance	(33.7)	5.5
Taxation		
Corporation tax (paid)/received	(1.6)	6.5
Payments to other Anglian Water Group Limited group undertakings	(59.7)	(15.6)
Taxation	(61.3)	(9.1)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(353.4)	(432.1)
Grants and contributions received	19.8	24.3
Disposal of tangible fixed assets	0.2	2.0
Net cash outflow for capital expenditure and financial investment	(333.4)	(405.8)
Equity dividends paid to shareholders	(280.8)	(293.1)
Net cash outflow before management of liquid resources and financing	(50.4)	(72.0)
Management of liquid resources		
Decrease/(increase) in short-term deposits and investments	127.5	(32.7)
Financing		
Increase in amounts borrowed	204.6	534.1
Repayment of amounts borrowed	(388.3)	(238.2)
Capital element of finance lease rental payments	(2.2)	(2.9)
Net cash (outflow)/inflow from financing	(185.9)	293.0
(Decrease)/increase in cash	(108.8)	188.3

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

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

	2010	2009
	£m	£m
Operating profit	463.2	445.6
Depreciation (net of amortisation of deferred grants and contributions)	241.7	228.3
Profit on sale of fixed assets	(0.7)	(1.9)
Difference between pension charge and cash contributions	(25.6)	(11.4)
Net movement in provisions	(0.2)	(1.4)
	<u>678.4</u>	<u>659.2</u>
 Working capital:		
Decrease in stocks	2.7	3.8
Increase in debtors	(50.8)	(33.0)
Increase in creditors	28.5	0.5
	<u>(19.6)</u>	<u>(28.7)</u>
 Net cash inflow from operating activities	<u>658.8</u>	<u>630.5</u>

for the year ended 31 March

1. Accounting policies

The consolidated financial information for the group is for the year ended 31 March 2010 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 2010. The results have been extracted from the audited financial statements of the group for the year ended 31 March 2010.

The Directors have undertaken a detailed review to assess the liquidity requirements of the group compared against the cash and facilities available to the group, and have a reasonable expectation that the group and company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The financial information does not constitute statutory accounts of the group within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for Anglian Water Services Limited for the year ended 31 March 2010 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 498 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2009, 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 2010.

2. Net interest payable

	2010	2009
	£m	£m
Other loans including financing expenses	229.1	237.3
Indexation	17.2	92.4
Finance leases	3.0	3.7
Interest receivable from Anglian Water Services Holdings Limited	(193.1)	(193.6)
Other interest receivable	(4.4)	(33.9)
Net interest payable and similar items	51.8	105.9

3. Other finance charges

	2010	2009
	£m	£m
Unwinding of discount on provisions	0.1	1.7
Defined benefit pension scheme	14.5	7.7
Other finance charges	14.6	9.4

for the year ended 31 March

4. Taxation

	2010	2009
	£m	£m
a) Analysis of tax charge in the year		
Current tax:		
UK corporation tax	38.0	30.2
Adjustments in respect of previous periods	14.8	11.6
Total current tax charge	52.8	41.8
Deferred tax:		
Charge for timing differences arising in year	21.1	8.3
Impact of discounting on deferred tax liability	(9.5)	(19.3)
Impact of increase in discount rates	(0.8)	(1.7)
Discounted effect of movements in Advance Corporation Tax (ACT)	3.2	-
Adjustments in respect of previous periods	(15.1)	(16.1)
Total deferred tax credit	(1.1)	(28.8)
Total tax charge on profit on ordinary activities	51.7	13.0

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 £0.8 million (2009: credit of £1.7 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 and £15.0 million would occur.

The 2010 current tax charge includes a charge of £11.2 million from another Anglian Water Group Limited group undertaking for the utilisation of ACT. There is no similar charge in 2009.

The current tax adjustment for previous periods relates to a prior year capital allowances disclaimer (£8.6 million) and a charge to another group company for expected ACT utilisation (£6.2 million). In 2009 the current tax adjustment for prior years relates to a prior year capital allowance disclaimer.

The deferred tax adjustment for prior years for both 2009 and 2010 relate to the effect of the prior year capital allowances disclaimers.

It has been agreed that the group will not pay for tax losses surrendered to it by Anglian Water Services Holdings Limited amounting to £193.1 million (2009: £193.6 million).

In addition to the current tax charge above, a £3.1 million credit (2009: £1.0 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.

for the year ended 31 March

4. Taxation (continued)**b) Factors affecting tax charge for the year**

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (28 per cent, 2009: 28 per cent). The differences are explained below:

	2010	2009
	£m	£m
Profit on ordinary activities before tax	396.8	330.3
Profit on ordinary activities at the standard UK rate of Corporation Tax (28 per cent, 2009: 28 per cent)	111.1	92.5
Effects of:		
Items not deductible for tax purposes	0.5	0.5
Items not taxable	(0.2)	(0.5)
Group relief utilised without charge	(54.1)	(54.2)
Depreciation not eligible for tax purposes	4.3	4.8
Industrial buildings allowance	(2.5)	(4.5)
Depreciation for the year less than capital allowances	(21.7)	(9.7)
Short-term timing differences	0.6	1.3
Adjustment to tax charge in respect of previous periods	14.8	11.6
Current tax charge for the year	52.8	41.8

5. Dividends

	2010	2009
	£m	£m
Previous year final dividend	37.7	100.0
Current year interim dividend	50.0	-
Dividend paid by the company and retained within the Anglian Water Services Financing group	192.6	193.1
Dividend committed to be paid by the company and retained within the Anglian Water Services Financing group	0.5	0.5
	280.8	293.6

A dividend of £193.1 million (2009: £193.1million) 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. The prior year dividend committed of £0.5 million was paid in June 2009.

The directors have proposed a final dividend for the year ended 31 March 2010 of 24.42 pence per share, which is a total of £210.0 million. The proposed dividend includes a special dividend of £90.0 million, reflecting an increase in the regulatory asset base of the company at the conclusion of AMP4 in respect of adjustments for the construction output price index (COPI) in excess of the retail price index (RPI) and net logging up of additional capital expenditure incurred and allowed by the Regulator. This distribution has not been accounted for within the 2010 financial statements as it was proposed and approved after the year end.

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 2009	860.0	609.9	1,469.9
Total recognised gains and losses for the year	-	266.9	266.9
Dividend paid and committed	-	(280.8)	(280.8)
At 31 March 2010	860.0	596.0	1,456.0

Company

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2009	860.0	567.3	1,427.3
Profit for the financial year	-	344.3	344.3
Actuarial loss recognised in the pension scheme	-	(108.5)	(108.5)
Movement on current tax relating to the actuarial loss in the pension scheme	-	3.1	3.1
Movement on deferred tax relating to the actuarial loss in the pension scheme	-	27.2	27.2
Dividend paid and committed	-	(280.8)	(280.8)
At 31 March 2010	860.0	552.6	1,412.6