

Anglian Water Services Limited

**Preliminary accounts for the year
ended 31 March 2009**

anglianwater

For immediate release
28 May 2009

Anglian Water Services Limited
Financial results for year ended 31 March 2009

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

I am pleased to report a strong performance by Anglian Water this year, despite significant cost pressures and the challenges presented by the economic downturn.

The business has performed well on many fronts. While there have been many external challenges, we have not allowed them to distract us from our focus on the service we provide to our customers.

This year has also been an important one for the current price review process, which will determine the scale of our investment programme, and therefore customers' bills, between 2010 and 2015 (AMP5).

In shaping our regulatory submission, affordability for customers has been one of our principal concerns. We have worked hard to limit proposed bill rises and believe that our plan represents excellent value for our customers.

In the face of significant operational cost pressure, our final plan proposes a capital investment programme of £2.26 billion, constraining the increase in customers' bills to an average of 0.6 per cent per year, excluding inflation, over five years. This increase is well within the one per cent aspiration set out in our 25 year plan and would represent the second lowest price increase in the water industry.

Ofwat is due to announce its final determination in November 2009.

Financial performance¹

The consolidated profit and loss account as presented on page 7 of this announcement is summarised in the table below:

	2009 Excluding transactions with AWS Holding companies £m	2009 Transactions with AWS Holding companies £m	2009 Total £m	2008 £m
Turnover	1,037.4	-	1,037.4	969.2
Operating costs	(363.5)	-	(363.5)	(331.2)
Depreciation	(228.3)	-	(228.3)	(217.0)
Operating profit	445.6	-	445.6	421.0
Net interest payable and other finance charge	(308.9)	193.6	(115.3)	(89.1)
Profit before tax	136.7	193.6	330.3	331.9
Taxation	(13.0)	-	(13.0)	(20.2)
Profit after tax	123.7	193.6	317.3	311.7
Dividends	(100.0)	(193.6)	(293.6)	(290.6)
Retained profit	23.7	-	23.7	21.1

In order to show the position of the Anglian Water Services Financing (AWSF) group, the above table shows the profit and loss account excluding interest receivable by the group from Anglian Water Services Holdings Ltd and the internal dividend paid by the group and retained within the AWSF group of £193.6 million (2008: £193.6 million).

Turnover for the year was £1,037.4 million, an increase of 7.0 per cent over the previous year due principally to the annual price increase. There were no significant reductions in business volumes in the year resulting from the economic downturn.

Operating costs for the year increased by £32.3 million (9.8 per cent) to £363.5 million (2008: £331.2 million). Significant increases in power and commodity prices were partly offset by our continued focus on sustainable cost reduction initiatives, including reduction in energy consumption, enhanced productivity through more centralised management of operations, and procurement savings. Power price increases caused an annual rise in power costs of approximately £13 million (25 per cent).

In addition there were one-off costs of £4.9m relating to the Pitsford water quality incident in the summer of 2008, which is £0.6m less than estimated in our half year accounts. The bad debt charge in the year was generally consistent with the charge in the prior year. Overall, operating expenditure as a percentage of turnover increased slightly from 34.2 per cent to 35.0 per cent.

¹ Extracted from audited accounts for the year ended 31 March 2009

As a result of the continuing capital programme depreciation was up 5.2 per cent from £217.0 million last year to £228.3 million.

Net interest payable and other finance charges (excluding interest receivable on an inter-company loan) increased by 9.3 per cent from £282.7 million in 2007/8 to £308.9 million in 2008/9. This is due primarily to the effect of lower interest rates on income from deposits, the requirement to raise new debt to finance the ongoing capital programme and an increased pension charge, partly offset by the impact of lower RPI in the second half of the year on index linked debt.

Capital expenditure

Gross capital expenditure for the year was £434.5 million, £158.1 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 four years of the current Asset Management Plan period (2005 to 2010) was approximately £1,649 million (at 2008/9 prices), compared with £1,624m in the Final Determination.

We are on track to meet our AMP4 obligations, which during the year included the addition of eight nitrate removal plants, and the installation of approximately 33,000 new meters. We completed two enhanced sludge treatment centres and provided first time sewerage to some 1,500 properties. We have also reduced the number of properties at risk of experiencing low water pressure by 130 and reduced the number of properties affected by interruptions of more than six hours by 40 per cent.

We continue to make good progress on our largest scheme to increase the amount of water we are able to extract and treat from our largest reservoir at Rutland. As part of the project, £43.5 million was invested in the year as part of the scheme to extend the Wing Water Treatment works.

The new part of the treatment works has been designed to be standalone from the existing works. It will improve the resilience of our water supply capability from Rutland reservoir to customers in a number of towns including Northampton, Peterborough and Milton Keynes.

Cash injection

Shortly before the year end, the Osprey consortium demonstrated its continued commitment to the company when it provided £115 million of additional funding to Anglian Water Group Ltd, of which £90 million was lent to Anglian Water Services via Osprey Holdco Ltd.

The funds are being provided to maintain and improve headroom in near-term debt covenants following the rapid fall in, and unpredictable outlook for, RPI.

The loan to Anglian Water Services is subordinated to Class A and Class B debt with payment of interest and repayment being subject to the restricted payments condition.

Operational performance

We entered the year as the leading water and wastewater company in terms of Ofwat's overall performance assessment (OPA) for the second consecutive year.

We maintained a strong position in 2008/9 with a provisional score of 415 (2007/8: 419). We believe this will rank highly in the industry when each company's score is confirmed later in the year.

The severe cold weather in January and February caused four times the normal level of water main bursts. Despite this, we believe that our year-on-year leakage performance will remain at around 5.6 cubic metres per kilometre of main per day when it is confirmed by Ofwat in July.

Our Customer Service Index, which includes levels of service, backlogs, service delivery failures and chase calls improved year-on-year. The measures relating to 'keeping our promises' to customers increased from 88 per cent to 93 per cent (Baseline 2006: 66 per cent).

According to the latest published report from the Drinking Water Inspectorate (DWI), Anglian Water's drinking water quality reached an excellent 99.98 per cent 'mean zonal compliance' against the regulatory standards in the 2008 calendar year (2007: 99.96 per cent). This is Anglian Water's best performance since the measure was introduced in 2004.

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) and was achieved despite poor weather conditions during the bathing water season. In 2009, 17 beaches in our region have been awarded Blue Flags (2008:15). This is an excellent result in a year when the number of beaches recommended nationally was the lowest since 2002. (Anglian Water region 71.7 per cent; UK 47.6 per cent.)²

The Environment Agency (EA) published its latest assessment of river water quality in the region in August 2008, 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 was 92.1 per cent (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.

Pitsford water quality incident

In June 2008 Anglian Water detected Cryptosporidia in routine water quality samples taken from the Pitsford treatment works in Northamptonshire. We took the precautionary approach of advising customers in approximately 108,000 homes to boil their tap water.

A high profile communications campaign ensured that customers were alerted quickly and kept informed throughout the incident. We also worked very closely with the Drinking Water Inspectorate, health protection agencies and community organisations.

² 34 of our 46 designated bathing beaches achieved the Bathing Water Directive Guideline standard and 33 of these qualify for the Marine Conservations Society Recommended category. Guideline compliance exceeds Mandatory Compliance and includes assessment of facilities on beaches in addition to good water quality.

The total cost of the incident, including the installation of ultra-violet water treatment at the works, and goodwill payments to customers was £4.9 million, none of which has been borne by our customers. The DWI confirmed that there will be no prosecution as a result of the incident, citing the quality and speed of our response as an important factor in their decision.

Looking ahead

Looking ahead to 2009/10, our priorities will be to complete our AMP4 capital investment programme and begin planning how we will deliver our plans for AMP5.

We expect that 2009/10 will continue to be a challenging year, anticipating that the continuing recession will add pressure to revenue generation and collection, necessitating increased management focus in both these areas.

We also recognise that continuing economic uncertainty will demand intense focus on putting in place the financing for AMP5. In addition, we will continue our emphasis on the efficient running of the business and execution of our capital programme.

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.

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group profit and loss account

for the year ended 31 March

Notes	2009	2008
	£m	£m
Turnover	1,037.4	969.2
Operating costs:		
- Operating costs before depreciation	(363.5)	(331.2)
- Depreciation net of amortisation of grants and contributions	(228.3)	(217.0)
Total operating costs	(591.8)	(548.2)
Operating profit	445.6	421.0
2 Net interest payable	(105.9)	(95.9)
3 Other finance (charge)/income	(9.4)	6.8
Profit on ordinary activities before taxation	330.3	331.9
4 Tax on profit on ordinary activities	(13.0)	(20.2)
Profit for the financial year	317.3	311.7

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

	2009 £m	2008 £m
Profit on ordinary activities after taxation	317.3	311.7
Actuarial losses recognised in the pension scheme	(15.7)	(81.9)
Movement on current tax relating to the actuarial loss in the pension scheme	1.0	5.4
Movement on deferred tax relating to the actuarial loss in the pension scheme	3.4	19.2
Impact of change in tax rate on deferred tax	-	0.8
Total recognised gains and losses relating to the year	306.0	255.2

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

group and company balance sheets

at 31 March

Notes	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Fixed assets				
Tangible assets	4,567.9	4,388.3	4,567.9	4,388.3
Investments	1,609.1	1,609.1	1,609.1	1,609.1
	<u>6,177.0</u>	<u>5,997.4</u>	<u>6,177.0</u>	<u>5,997.4</u>
Current assets				
Stocks	12.8	16.6	12.8	16.6
Debtors	263.1	232.7	559.2	568.5
Investments – money market deposits	-	170.0	-	-
Cash at bank and in hand (including short-term deposits)	913.3	522.3	574.7	330.7
	<u>1,189.2</u>	<u>941.6</u>	<u>1,146.7</u>	<u>915.8</u>
Creditors: amounts falling due within one year				
Short-term borrowings	(300.4)	(291.1)	(300.4)	(291.1)
Other creditors	(448.3)	(401.3)	(448.4)	(401.3)
	<u>(748.7)</u>	<u>(692.4)</u>	<u>(748.8)</u>	<u>(692.4)</u>
Net current assets	440.5	249.2	397.9	223.4
Total assets less current liabilities	6,617.5	6,246.6	6,574.9	6,220.8
Creditors: amounts falling due after more than one year				
Loans and other borrowings	(4,900.3)	(4,525.4)	(4,900.3)	(4,525.4)
Other creditors	(126.3)	(123.8)	(126.3)	(123.8)
Provisions for liabilities and charges	(49.9)	(77.4)	(49.9)	(77.4)
Defined benefit pension liability (net)	(71.1)	(62.5)	(71.1)	(62.5)
Net assets including pension deficit	<u>1,469.9</u>	<u>1,457.5</u>	<u>1,427.3</u>	<u>1,431.7</u>
Capital and reserves				
Called up share capital	860.0	860.0	860.0	860.0
Profit and loss account	609.9	597.5	567.3	571.7
Total shareholder's funds	<u>1,469.9</u>	<u>1,457.5</u>	<u>1,427.3</u>	<u>1,431.7</u>

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

group cash flow statement

for the year ended 31 March

Notes	2009	2008
(a)	£m	£m
Net cash inflow from operating activities	630.5	595.7
Returns on investments and servicing of finance		
Interest received	230.7	226.0
Interest paid	(218.9)	(220.5)
Issue costs of new debt issues	(2.6)	(0.4)
Interest element of finance lease rental payments	(3.7)	(4.9)
Net cash inflow from returns on investments and servicing of finance	5.5	0.2
Taxation		
Corporation tax received	6.5	3.8
Payments to other Anglian Water Group Limited group undertakings	(15.6)	(29.6)
	(9.1)	(25.8)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(432.1)	(447.6)
Grants and contributions received	24.3	33.5
Disposal of tangible fixed assets	2.0	2.5
Net cash outflow for capital expenditure and financial investment	(405.8)	(411.6)
Equity dividends paid to shareholders	(293.1)	(291.1)
Net cash outflow before management of liquid resources and financing	(72.0)	(132.6)
Management of liquid resources		
Increase in short-term deposits and investments	(32.7)	(98.8)
Net cash outflow from management of liquid resources	(32.7)	(98.8)
Financing		
Increase in loans	534.1	300.9
Repayment of amounts borrowed	(238.2)	(2.7)
Capital element of finance lease rental payments	(2.9)	(27.2)
Net cash inflow from financing	293.0	271.0
Increase in cash	188.3	39.6

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**

	2009	2008
	£m	£m
Operating profit	445.6	421.0
Depreciation (net of amortisation of deferred grants and contributions)	228.3	217.0
Profit on sale of fixed assets	(1.9)	(2.5)
Net movement in provisions	(12.8)	(10.8)
	<u>659.2</u>	<u>624.7</u>
Working capital:		
Decrease/(increase) in stocks	3.8	(4.9)
Increase in debtors	(33.0)	(17.4)
Increase/(decrease) in creditors	0.5	(6.7)
	<u>(28.7)</u>	<u>(29.0)</u>
Net cash inflow from operating activities	<u>630.5</u>	<u>595.7</u>

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 2009 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 2009. The results have been extracted from the audited financial statements of the group for the year ended 31 March 2009.

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 240 of the Companies Act 1985. Statutory accounts for Anglian Water Services Limited for the year ended 31 March 2009 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 2008, 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 2009.

2. Net interest payable

	2009	2008
	£m	£m
Other loans including financing expenses	237.3	222.8
Indexation	92.4	94.5
Finance leases	3.7	4.3
Interest receivable from Anglian Water Services Holdings Limited	(193.6)	(193.6)
Other interest receivable	(33.9)	(32.1)
Net interest payable and similar items	105.9	95.9

3. Other finance charge/(income)

	2009	2008
	£m	£m
Unwinding of discount on provisions	1.7	1.0
Defined benefit pension scheme	7.7	(7.8)
Other finance charge/(income)	9.4	(6.8)

notes to the financial information

for the year ended 31 March

4. Taxation

	2009 £m	2008 £m
a) Analysis of tax charge in the year		
Current tax:		
UK corporation tax	30.2	44.0
Adjustments in respect of previous periods	11.6	13.0
Total current tax charge	41.8	57.0
Deferred tax:		
Charge/(credit) for timing differences arising in year	8.3	(2.1)
Impact of discounting on deferred tax liability	(19.3)	(12.7)
Impact of decrease in discount rates	(1.7)	(0.1)
Discounted effect of changes to tax rate and industrial buildings allowances in Budget 2007	-	(13.8)
Adjustments in respect of previous periods	(16.1)	(8.1)
Total deferred tax credit	(28.8)	(36.8)
Total tax charge on profit on ordinary activities	13.0	20.2

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 £1.7 million (2008: credit of £0.1 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 credit of £12.2 million from another Anglian Water Group Limited group undertaking for the utilisation of ACT. There is no similar credit in 2009.

The current tax adjustment for prior years relates to a prior year capital allowance disclaimer. In 2008 the current tax adjustment in respect of previous periods 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.

It has been agreed that the group will not pay for tax losses surrendered to it by Anglian Water Services Holdings Limited amounting to £193.6 million (2008: £193.6 million).

In addition to the current tax charge above, a £1.0 million credit (2008: £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 (28 per cent, 2008: 30 per cent). The differences are explained below:

	2009	2008
	£m	£m
Profit on ordinary activities before tax	330.3	331.9
Profit on ordinary activities at the standard UK rate of Corporation Tax (28 per cent, 2008: 30 per cent)	92.5	99.6
Effects of:		
Items not deductible for tax purposes	0.5	0.4
Items not taxable	(0.5)	(0.7)
Group relief utilised	(54.2)	(58.1)
Depreciation not eligible for tax purposes	4.8	0.7
Industrial buildings allowance	(4.5)	-
Depreciation for the year (less than)/in excess of capital allowances	(9.7)	1.8
Short-term timing differences	1.3	0.3
Adjustment to tax charge in respect of previous periods	11.6	13.0
Current tax charge for the year	41.8	57.0

5. Dividends

	2009	2008
	£m	£m
Previous year final dividend	100.0	35.0
Current year interim dividend	-	62.0
Dividend paid by the company and retained within the Anglian Water Services Financing group	193.1	194.1
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)
	293.6	290.6

A dividend of £193.1 million (2008: £194.1million) 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 remaining £0.5 million which has been committed to be paid will be settled in June 2009.

The directors have proposed a final distribution for the year ended 31 March 2009 of 15.12 pence per share, which is a total of £130.0 million. This distribution has not been accounted for within the 2008/09 financial statements as it was proposed and approved after the year end. The payment has been retained in a distributions account within Anglian Water Services pending a decision being taken later in the year to agree the precise quantum and mechanism for making the ultimate distribution. This will depend on the outlook for RPI at the time the decision is taken.

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 2008	860.0	597.5	1,457.5
Total recognised gains and losses for the period	-	306.0	306.0
Dividend paid and committed	-	(293.6)	(293.6)
At 31 March 2009	860.0	609.9	1,469.9

Company

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2008	860.0	571.7	1,431.7
Profit on ordinary activities after taxation	-	300.5	300.5
Actuarial loss recognised in the pension scheme	-	(15.7)	(15.7)
Movement on current tax relating to the actuarial loss in the pension scheme	-	1.0	1.0
Movement on deferred tax relating to the actuarial loss in the pension scheme	-	3.4	3.4
Dividend paid and committed	-	(293.6)	(293.6)
At 31 March 2009	860.0	567.3	1,427.3