Anglian Water Group Limited
Half-yearly report
for the six months ended 30 September 2009

Summary	Six months to 30 September 2009 Unaudited	Six months to 30 September 2008 Unaudited
Turnover from continuing operations [1]	721.4	702.1
Total operating profit before goodwill amortisation from continuing operations [2]	240.5	219.6
Profit before tax, exceptional items and goodwill amortisation [3]	74.6	43.4
Profit before tax	38.6	20.9

[1] Turnover from discontinued operations was £nil (2008: £65.7m)
[2] Total operating profit from discontinued operations was £nil (2008: £1.1m)
[3] Excludes exceptional charges of £nil (2008: exceptional profit of £13.8) and goodwill amortisation of £36.0m (2008: £36.3m)

Group financial results

Anglian Water Group Limited's principal business is Anglian Water, the group's regulated water and wastewater company, which serves in excess of five million customers in the east of England and Hartlepool. The group also includes Morrison Facilities Services, a repair and maintenance business, and AWG Property, a specialist property development company.

This interim review has been prepared in respect of the six months ended 30 September 2009.

Turnover from continuing operations for the period was £721.4 million, an increase of 2.7 per cent from £702.1 million in 2008. Anglian Water showed growth principally as a result of the regulatory pricing formula, however Morrison Facilities Services revenues declined slightly due to the expiry of a fixed term contract.

Total operating profit from continuing operations before goodwill amortisation was £240.5 million, an increase of 9.5 per cent from £219.6 million in 2008. Operating profit before goodwill amortisation in Anglian Water increased by 6.7 per cent to £245.3 million compared with the prior year (£229.9 million) as a result of the increased turnover, partially offset by increases in operating costs and depreciation. Morrison Facilities Services operating profit before goodwill amortisation increased to £5.6 million from £1.4 million in the prior year, reflecting an enhanced operational focus and contract specific productivity improvements. AWG Property is currently operating in the very difficult UK property market and reported an operating loss of £2.2 million for the period (2008: loss of £4.7 million).

The net finance charge for the period was £165.9 million, a significant reduction compared with the prior period of £177.3 million. This was principally due to the non-cash impact of the rapid fall in RPI on index-linked bonds, partially offset by lower interest receivable and higher net debt.

Resultant profit before tax, goodwill amortisation and exceptional items was £74.6 million (2008: £43.4 million). After goodwill amortisation and exceptional items profit before tax was £38.6 million (2008: £20.9 million).

The tax charge for the period was a charge of £22.7 million (2008: credit of £2.7 million). The year on year increase was primarily due to a higher level of profit before tax and movements in discount rates impacting deferred tax liabilities. The underlying effective tax rate for the period excluding amortisation of goodwill, exceptional items, discounting of deferred tax and prior year adjustments was 35.1 per cent (2008: 30.7 per cent). This is higher than the corporation tax rate of 28% due to specific permanently disallowable items for tax purposes.

Cash flow

The total operating cash inflow for the group from continuing operations was £300.7 million (2008: £288.6 million), an increase of 4.2 per cent on the prior period. Anglian Water contributed all of the improvement, predominantly from higher turnover. This was partially offset by a reduction in cash generation within Morrison Facilities Services and Property.

The net cash outflow for capital expenditure was £184.1 million (2008: £221.6 million). The vast majority of capital expenditure relates to the Anglian Water capital programme, which comprised gross expenditure in the period of £169 million. Net cash outflow from capital expenditure is after grants and contributions of £10.9 million received towards the capital programme and refers to the actual cash spend net of a reduction in creditors and accruals.

Net debt

Net debt increased by £32.1 million to £5,599.3 million in the six months to 30 September 2009. This was in line with expectations and relates primarily to the capital enhancement expenditure program within Anglian Water.

Pensions

At 30 September 2009 the gross deficit for the group (before deferred tax) was £169.0 million (31 March 2009: £102.1 million). During the period asset performance was above expectations, however this was more than offset by a decrease in the discount rate used to value the scheme liabilities. Future additional contributions will continue to be made in line with actuarial advice.

Divisional performances

Anglian Water

Results for the six months to 30 September 2009	2009 £m	2008 £m
Turnover	557.1	525.8
Operating costs	(193.1)	(183.3)
Depreciation	(118.7)	(112.6)
Operating profit before goodwill amortisation [1]	245.3	229.9

[1] Excludes goodwill amortisation of £34.3m (2008: £34.3m)

Financial performance

Turnover for the six months to September 2009 was £557.1 million (2008: £525.8 million). This increase of 6.0 per cent compared to the same period last year was due principally to the regulatory pricing formula. Demand from business customers in the region remains largely consistent with prior periods, although it is being closely monitored in light of the current economic climate.

Operating costs were up £9.8 million (5.3 per cent) on the prior period to £193.1 million. The prior period included £5.5 million of one-off costs relating to last year's water quality incident in Northamptonshire. The underlying increase in operating costs, excluding this one-off incident was £15.3 million, or 8.6 per cent, which is primarily a result of increases in power costs and bad debt provisions in the period, together with ongoing costs to run newly completed infrastructure.

Customer debt collection continues to be challenging in the current economic environment and the deterioration has accelerated during the last quarter. As a result, we have increased our bad debt charge compared to the same period last year. We introduced a new debt management system in January 2009 which is helping us to work effectively with our customers during this difficult economic period.

As a result of the ongoing capital programme, depreciation is up 5.4 per cent compared with the same period last year.

Operating profit before goodwill amortisation has grown by 6.7 per cent to £245.3 million as a result of the increased turnover, partially offset by the increases in operating costs and depreciation.

The net finance charge (excluding the intra-group interest received of £96.8 million, 2008: £97.3 million) fell by £27.4 million from £157.5 million in the same period last year to £130.1 million in the six months to September 2009. This was principally due to the non-cash impact of reduced RPI on index-linked bonds, partially offset by lower interest receivable.

In the six months to September 2009 Anglian Water raised £154.6 million of new funds and made repayments totalling £298.3 million on maturing bonds. In addition to this, the subordinated intra-group loan of £90.0 million, which was provided by the shareholder consortium to maintain and improve near-term debt covenants at March 2009, was repaid in full in July 2009 to Osprey Holdco Limited, but currently remains within the overall group structure. New bank facilities totalling £300 million were successfully negotiated on a forward starting basis, which will replace £225 million of current facilities when they expire in July 2010.

Capital expenditure in the period remains on track with the commitment for the current Asset Management Plan (AMP4) period, which covers 2005 to 2010. During the first half of the year we invested £169 million in the capital programme, compared with £203 million for the same period last year. This reduction year on year is in line with the regulatory profile of spend over AMP4.

Operational performance

In October 2009, Ofwat announced our overall performance assessment score (OPA) of 415 for 2008/09, putting us in the top two English and Welsh water and wastewater companies for the third consecutive year and consolidating our position as one of the UK's leading water companies (2007/08: 419). The average score for the 10 water and wastewater companies in England and Wales is 397 (2007/08: 383).

Anglian Water supplies safe, pure drinking water, essential to the health and well-being of over four million domestic and commercial customers. The Drinking Water Inspectorate's latest full year report - for the calendar year 2008 - shows drinking water quality to be extremely high, with Anglian Water's *mean zonal compliance* score at 99.98 per cent against regulatory standards (2007: 99.96 per cent).

Anglian Water takes its responsibility to the region's environment seriously and this is reflected in its operations. The quality of the water it returns to the sea around the region's extensive coastline plays an important role in improving the overall standard of the region's bathing waters. This year there are 17 Blue Flag beaches in Anglian Water's region, two more than in 2008.

During 2009, and for the eighth consecutive year, Anglian Water maintained its record of 100 per cent compliance with the mandatory bathing water standards. In addition, it met the more stringent guideline standards at 34 out of the 46 designated bathing waters in the region for the second year running.

Anglian Water continues to contribute substantially to improving river water quality in the region. In particular, the company's phosphate removal processes are bringing year on year improvements, continuing a steady trend since 2000.

The Environment Agency's latest river monitoring quality data shows that, for 99.8 per cent of rivers in the Anglian Water region, biological quality was classed as 'very good' to 'fair' (2007: 99.8 per cent). The chemical quality of rivers in the Anglian Water region increased to 94.8 per cent (2007: 92.1 per cent).

Price review

In April Anglian Water submitted its Final Business Plan to Ofwat as part of the 2009 Price Review for the 2010/15 AMP period (AMP5).

The Final Business Plan drew substantial support from partner organisations in the region, including the regional Consumer Council for Water, the East of England Development Agency (EEDA) and the

CBI. In the light of this support, Anglian Water found Ofwat's Draft Determination, issued in August, disappointing. The company submitted its response in September.

Ofwat issued its Final Determination on 26 November 2009 and Anglian Water is currently considering the implications for AMP5.

The new prices determined by Ofwat will come into effect in April 2010, the beginning of the new AMP period.

Morrison Facilities Services

Results for the six months to 30 September 2009	2009 £m	2008 £m
Turnover including share of joint ventures	129.9	135.0
Operating profit before goodwill amortisation [1]	5.6	1.4

[1] Excludes goodwill amortisation of £1.7m (2008: £1.7m)

Morrison Facilities Services is our housing repairs and maintenance business, managing outsourced contracts awarded by local authorities and housing associations and is a leading provider in its market place. Although part of the Anglian Water Group, Morrison Facilities Services operates on a stand alone basis. The business looks after more than 400,000 homes in the UK for Councils, Housing Associations and Arms Length Management Organisations (ALMO's), has an annual turnover in excess of £250m and an established presence in London and the South East, Scotland, the North East, the North West, the Midlands and Norfolk.

During the period the business showed a small reduction in turnover compared to the corresponding period in the last financial year. The drop in turnover is mainly due to revenues generated in the first six months of 2008/09 from a contract that has now ended; several new contracts were mobilised during the first six months of 2009/10 which are expected to improve turnover in the second half of the year.

The improvement in profit reflects an enhanced operational focus and contract specific productivity improvements.

During the period Morrison Facilities Services has mobilised four new contracts, and four contract renewals. A further six new contracts have been successfully negotiated, along with one renewal, in the same period, and will mobilise in the next few months.

The pipeline for further new orders continues to look positive although there can be a lead time of over twelve months from initial bid to contract award. The business has a solid foundation and, with further outsourcing from local authorities expected, is well placed for future growth.

AWG Property

Results for the six months to 30 September 2009	2009 £m	2008 £m
Turnover including share of joint ventures	8.7	18.4
Operating loss	(2.2)	(4.7)
Capital employed	23.6	26.5

AWG Property comprises our property development and investment business and is based in Edinburgh. Most of the property projects are based in Scotland, although there are some residual investments in Wales, Ireland and England.

The UK property market has suffered dramatically as a result of the significant economic downturn. As a consequence the group has decided to hold, manage and add value to its existing property assets until the market recovers at which point it intends to dispose of individual assets. We anticipate that this process could take up to three years.

Turnover has fallen reflecting the reduction in transactions in the period; whilst the reduced loss is due to the previous period being impacted by asset write-downs.

In the first half of the year the group achieved some success in the realisation of value from the residual residential portfolio. Two of our three remaining residential projects have now disposed of almost all of their properties and we are pursuing a number of initiatives in relation to the remaining site to realise value over the next year.

With respect to other development assets, we continue to pursue cost effective strategies to increase the value ahead of subsequent disposal when the market improves.

Other

The ‘Other’ business segment mainly comprises head office, Alpheus Environmental, a wastewater treatment works in the Republic of Ireland and a limited number of small residual international interests.

The group intends to exit the remaining international businesses. The group will continue to operate its long-term wastewater treatment business in the Republic of Ireland.

Turnover for the ‘other’ segment increased from £23.3 million to £26.1 million primarily as a result of the favourable foreign exchange movement for our wastewater business in the Republic of Ireland. Operating loss for the ‘other’ segment increased from £7.0 million in the prior period to £8.2 million.