

Operating and financial review

Aquarion

The company has dealt successfully with the challenges of integrating the four New England water companies acquired in April 2002, while at the same time making significant progress in the area of contract operations.

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01 Improved services Aquarion has opened a new, state of the art call centre to improve on its already high standards of customer service. The new call centre will help meet demand created by Aquarion's recent acquisition of four water companies, which resulted in a 50% increase in the number of customers served by the company.

02 Celebrating diversity Aquarion has a rich tradition of celebrating cultural diversity in the communities in which it operates. Pictured here are employees and children celebrating National Hispanic Heritage Month, a major event in the US calendar which runs from 15 September to 15 October.



Financial performance

2002/03 was a year of consolidation for Aquarion following the acquisition of the New England operations of American Water Works at the end of April 2002. The acquisitions increased the scale of the US operations by around 50%, adding £29.5m to turnover and £10.5m to operating profit in the eleven month period after acquisition.

Turnover of the continuing US operations decreased to £64.2m (2002: £70.5m). Operating profit was reduced to £24.4m (2002: £28.2m) due to a dry summer in the north east region served by Aquarion, a number of other cost pressures and pre contract costs in the Aquarion Services contract operations business. £9.8m (40%) of the full year operating profit accrued in the second half year reflecting the seasonal influence on water consumption in the US, where customers are predominantly metered.

The combined US operations had turnover of £93.7m (2002: £70.5m) and operating profits of £34.9m (2002: £28.2m).

Timco, the small timber business owned by Aquarion is being closed at an expected loss of £3.9m and its results are included within discontinued operations. In 2003, Timco turnover amounted to £9.7m (2002: £11.2m) and the business incurred an operating loss of £0.4m (2002: £0.1m).

Operating review

Aquarion has continued to grow its operations through acquisition and the expansion of its contract water and waste water operations. The acquisition of four water company subsidiaries from American Water Works in New York, Connecticut, New Hampshire and Massachusetts, was completed in April 2002 for \$120m cash and the assumption of \$104m of debt. The efficient integration of the new utilities has now been achieved. The acquisition increased Aquarion's water company customer base by 64,000 accounts or approximately 50%. During the year Aquarion also acquired the New England water operations contract business from AquaSource Inc.

The non regulated water sector business also achieved a significant success with the award of a 10 year, \$110m contract to operate the Water Pollution Control Authority in Aquarion's home city of Bridgeport, Connecticut, commencing in April 2003. It is one of 11 new water and waste water contracts that Aquarion has obtained throughout New England and brings the total to more than 40.

The company continued to make a significant investment in its infrastructure to improve water service and delivery. The comprehensive capital improvement plan, which includes supply, treatment, pumping and distribution improvements, mains replacements and long range water supply planning was £19.9m (2002: £17.2m). In the new financial year, the capital budget is expected to exceed £30m. The improvements will be partly financed by proceeds from the company's March 2002 \$90m land sale.

Aquarion has signed a Memorandum of Understanding with the Connecticut Department of Environmental Protection not to sell its water utility subsidiary's 1,300 acres of land in the newly acquired service areas of Greenwich and Mystic, Connecticut for two years - unless it is preserved as open space.

Customer service

Aquarion opened a new customer call centre in Connecticut to provide service for existing and new customers throughout the enlarged operation. The company has maintained high customer satisfaction marks from the Connecticut Department of Public Utility Control (DPUC). The DPUC's 10th Annual Consumer Service Complaint Scorecard, which documents unresolved complaints of all Connecticut service utilities that generally concern such issues as billing disputes, terminations and overall service quality, in March reported that Aquarion Water received its lowest number of unresolved customer complaints since 1994.

