

Aquarion.

Financial performance

Turnover from continuing operations for the year was £94.1m (2003: £93.7m). Higher turnover was driven by increased revenue from Aquarion Services Company, the company's contract operations division. This was offset by lower revenue from the core utility business and the weakness of the dollar on retranslation into Sterling. Timco, Aquarion's former timber processing subsidiary, was closed and its assets sold during the year.

The utility business was adversely affected by an unusually cool and wet summer season which resulted in lower metered water consumption.

Operating profit for the year was £31.6m (2003: £34.9m). Operating profit in dollar terms was flat but declined on translation into Sterling. Profits were impacted by decreased water revenues in the utility business.

The business is primarily focused on the delivery of rate of return maximisation and enhanced efficiency in its core utility business, through the achievement of operational and capital efficiencies, greater use of new technology to support more business improvement initiatives, and the transference of technology used by Yorkshire Water to Aquarion.

INCREASED WATER CHARGES

In October, Aquarion's Nassau County, New York based water utility subsidiary began to benefit from a \$0.3m increase in water charges to reflect past investments in infrastructure. An additional \$0.1m increase will take effect in October. On a larger scale, the state of Connecticut water utility filed an application in March 2004 with the Public Utility Commission requesting an annual increase in water charges. The final increase will be determined by the Connecticut Department of Public Utility Control. This is to reflect an approximate \$150m invested throughout the state since the most recent increases took effect on or before 1996.

The proposed increases in water service revenues are driven primarily by investments in water utility infrastructure as well as the need to set aside reserves to replace or upgrade future plant and equipment.

Aquarion is also seeking a surcharge to fund a \$45m upgrade to a water filtration plant in Connecticut. The decisions will be made by the regulator in the autumn of 2004. If approved, increased water charges will take effect from 1 October 2004, and the surcharge is expected to become effective by the end of 2004.

AQUARION SERVICES

Aquarion Services Company, the contract operations arm, expanded its water and waste water business and increased the number of operations, maintenance and related services sites. Aquarion Services also acquired two contract operations subsidiaries in the north east and on the west coast, which included 25 operations agreements and associated assets and was selected for 15 others through competitive pursuits. Safety Valve, Aquarion's service line protection business, demonstrated revenue and earnings growth through four new municipal partnerships.

CUSTOMER SERVICE AND CONTINUOUS IMPROVEMENT

Aquarion has remained focused on the enhancement of its water delivery and customer service. After launching its internet-based 'AquariOnline' electronic bill payment service and receiving an even higher customer satisfaction report from the state of Connecticut economic regulatory authority that collects such information, Aquarion's employees are continuing efforts to enhance customer bill payment options as well as continuously improving responsiveness to customers.

126,000

126,000 TESTS are carried out every year to ensure Aquarion's customers receive the highest standards of water quality.

How we're performing: Aquarion continued...



Aquarion employees earned three Innovation Prize Awards in 2003 from the Connecticut Quality Improvement Award Partnership. These recognised initiatives designed to enhance the internal awareness of local and national industry-related news events, improve the disinfection process for new water mains and educate customers on water conservation and watershed protection.

In addition, the company launched a pilot programme to transform excess pressure within water pipes into electricity by using a new microturbine technology. This pilot programme intends to enhance infrastructure while providing a new source of clean, renewable energy and revenue for utilities. The power will be delivered back to the electric utility grid.

ENVIRONMENTAL STEWARDSHIP AND COMMUNITY INVOLVEMENT

Aquarion employees have also earned awards for community service, environmental stewardship and performance excellence. In addition to the Innovation Prize Award, Aquarion also collected awards for outstanding mentoring and a school business partnership, community service, educational programme support and community outreach.

To inspire local youth to continually pursue academic excellence, employee teams sponsored several activities in 2003, including a Black History Celebration, now into its twelfth consecutive year.

ENERGY EFFICIENCY

AQUARION HAS RECENTLY BEEN RECOGNISED FOR ITS SUCCESS AT DRIVING DOWN ENERGY CONSUMPTION.

EVERY YEAR THE STATE OF CONNECTICUT OFFICE OF POLICY AND MANAGEMENT, THE DEPARTMENT OF ENVIRONMENTAL PROTECTION AND THE DEPARTMENT OF PUBLIC UTILITY CONTROL JOIN FORCES TO ACKNOWLEDGE AND REWARD ORGANISATIONS THAT HAVE SUBSTANTIALLY REDUCED THE AMOUNT OF ELECTRICITY THEY USE.

AQUARION WAS PRESENTED WITH THE 'PEAK PERFORMER' AWARD FOR WORK UNDERTAKEN RECENTLY TO OPTIMISE THE PERFORMANCE OF ITS WATER SUPPLY SYSTEM.

AS WELL AS INTRODUCING NEW PUMPING REGIMES AND INSTALLING HIGHLY EFFICIENT HEATING, VENTILATION AND COOLING EQUIPMENT, THE COMPANY ALSO ALTERED THE TIMING OF SOME OF ITS OPERATIONS TO MAKE THE MOST OF OFF-PEAK TARIFFS.

JACK GOLDBERG, THE VICE CHAIRMAN OF THE CONNECTICUT DEPARTMENT OF PUBLIC UTILITY CONTROL, SAID: "TO ACHIEVE THE BEST ENERGY PERFORMANCE THEY LOOKED NOT ONLY AT ONE FACILITY BUT AT HOW THE INTERACTION OF SIX DIFFERENT FACILITIES COULD BE OPTIMISED. THAT TOOK AN ENORMOUS AMOUNT OF COORDINATION AND IS TO BE APPLAUDED."

AQUARION'S EXPERIENCES ARE NOW BEING SHARED WITH OTHER ORGANISATIONS IN THE CONNECTICUT AREA IN A BID TO PROMOTE BEST PRACTICE.

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3 INNOVATION PRIZE AWARDS in 2003