



Interim Results 2006

For the half year ended 30 September 2006

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Financial Highlights

- Operating profit up 11.7% to £105.6m before amortisation of intangibles
 - SWW up 8.2% to £84.2m
 - Viridor up 29.8% to £21.8m
- Profit before tax up 16.9% to £71.1m
- Earnings per share up 18.8% to 16.4p ⁽¹⁾
- Interim dividend per share up 6.4% to 5.85p
- South West Water capital expenditure up 21.0% to £83.7m
- 3 for 1 stock split took place July 2006

⁽¹⁾ Before deferred tax

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2006/07 Operational Highlights

South West Water:

- On target to deliver 2005 – 2010 Regulatory Contract
- Profit increase reflecting strong growth in RCV 2005 – 2010 reaching £2.6bn by end of K4
- South West bathing waters 100% compliant with mandatory standards (all 144 beaches for the first time)
- Tenth consecutive year without hosepipe bans and drought orders
- Drinking water quality at all time high as direct result of mains rehabilitation

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2006/07 Operational Highlights

Viridor:

- Particularly strong growth in profits
- Wyvern Waste acquired for £25m and performing well
- Long-term waste management PPP contract signed with Somerset County Council
- Lakeside energy from waste plant joint venture under construction and on schedule to open in 2008
- Treatment and disposal contract extension to 2027 secured with Borough of Poole



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Summary Financial Results

	For the half year ended 30 September			Full Year
	2006 £m	2005 £m	Change %	2005/06 £m
Group revenue	373.6	328.2	13.8	645.7
Group operating profit	105.6	94.5	11.7	176.7 ⁽¹⁾
Group profit before tax	71.1	60.8	16.9	110.9 ⁽¹⁾
Earnings per share ⁽²⁾⁽³⁾	16.4p	13.8p	18.8	25.2p ⁽¹⁾

⁽¹⁾ Before exceptional items

⁽²⁾ Before deferred tax

⁽³⁾ Adjusted for stock split

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Cash Flow

	For the half year ended 30 September		Full Year
	2006 £m	2005 £m	2005/06 £m
Cash inflow from operations before pension prepayment	145.2	126.4	276.3
Net interest paid	(20.1)	(18.3)	(106.4)
Dividends and tax paid	(19.5)	(16.4)	(36.3)
Capital expenditure	(120.3)	(84.9)	(213.8)
Acquisitions/disposals	(21.8)	(40.5)	(40.8)
Pension prepayment	(8.6)	(44.2)	(44.2)
Net cash outflow	<u>(45.1)</u>	<u>(77.9)</u>	<u>(165.2)</u>
Shares issued	1.7	1.5	1.6
Own shares acquired	(5.8)	-	-
B Share payments	(5.7)	-	(137.8)
Non-cash movements	<u>(12.3)</u>	<u>(4.2)</u>	<u>(7.5)</u>
Increase in net borrowings	<u>(67.2)</u>	<u>(80.6)</u>	<u>(308.9)</u>

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Net Borrowings

	As at 30 September		As at
	2006	2005	31 March
	£m	£m	2006
			£m
Loans and finance leases			
- over one year	1,513.6	1,360.9	1,471.8
- under one year	71.1	53.7	54.7
	<u>1,584.7</u>	<u>1,414.6</u>	<u>1,526.5</u>
Less: cash and cash equivalents	(90.4)	(215.8)	(99.4)
Net borrowings	<u>1,494.3</u>	<u>1,198.8</u>	<u>1,427.1</u>
Net gearing ⁽¹⁾	72%	63%	71%
SWW debt/RCV	64%	50%	62%

⁽¹⁾ Debt to equity + debt

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Net Debt Analysis as at 30 September 2006

	£m
Finance leasing	966.4
Bank bilaterals - RCFs/term loans	267.5
EIB	234.4
Private placement	100.0
Other	16.4
Total gross debt	<u>1,584.7</u>
Less: Cash/liquid investments	<u>(90.4)</u>
Total net debt	<u>1,494.3</u>

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Net Interest Payable

	For the half year ended 30 September		Full Year
	2006 £m	2005 £m	2005/06 ⁽¹⁾ £m
Interest payable	(48.4)	(48.4)	(96.8)
Interest receivable	14.8	15.5	32.5
Net interest payable	<u>(33.6)</u>	<u>(32.9)</u>	<u>(64.3)</u>
Average rate of interest	4.6%	5.7%	5.1%
Net interest cover	3.1 times	2.8 times	2.7 times

- **Effective management of interest rates – SWW 4.3%**

⁽¹⁾ Before exceptional items

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Efficient Financing Strategy

- Funding strategy uses mix of fixed, floating and index linked rate borrowings
- Locks-in benefit of low interest rates compared to Ofwat assumptions
- Circa 70% of SWW debt fixed to March 2007
- Circa 60% of SWW debt fixed to March 2010
- Circa 10% SWW debt index linked to 2041
- Committed funding in place for SWW up to March 2008
- £100m private placement

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Taxation

	For the half year ended 30 September		Full Year
	2006 £m	2005 £m	2005/06 £m
UK corporation tax	13.0	8.1	14.8 ⁽¹⁾
Deferred tax	4.6	15.3	20.2
Total	<u>17.6</u>	<u>23.4</u>	<u>35.0</u>

- **Mainstream tax charge 18% (H1 2005 - 13%)**

(1) Before net tax credit of £18.7m relating to tax relief on exceptional items

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Pensions

- Pension deficit (net of tax) of c£29m at 30 September 2006 – unchanged from 31 March 2006
- Deficit includes impact of further c£9m contribution prepayment in September 2006 (c£6m net of tax) for period up to 2009/10
- Net deficit represents less than 2% of market capitalisation

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Dividends

- Progressive dividend policy: 3% real
- Interim dividend increased by 6.4% to 5.85p per share
- Dividend cover (before deferred tax): 2.8x (H1 2005/06: 2.7x)
- DRIP (Dividend Re-Investment Plan) alternative



South West Water

Financial Performance Summary

	For the half year ended 30 September			Full Year
	2006 £m	2005 £m	Change %	2005/06 £m
Revenue	195.9	177.3	10.5%	348.5
Operating profit	84.2	77.8	8.2%	141.5 ⁽¹⁾

⁽¹⁾ Before exceptional costs

South West Water Revenue

Increase of £18.6m (10.5%) in half year. Reflects impact of:

	£m
- tariff increase	22.0
- meter option switchers	(3.7)
- new connections	1.6
- demand	(1.9)
- other	0.6
	<hr/>
	18.6
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- **Number of meter switchers** **15,400**
- **Number of new customers** **3,700**
- **56% domestic customers now metered**

South West Water Operating Costs

For the half year ended
30 September

	2006	2005	Change
	£m	£m	%
Total operating costs	111.7	99.5	12.3
Increase in operating costs due to			
- inflation (including power costs and chemicals)	5.2		
- new capital schemes	4.7		
- other (including infra opex)	3.7		
- efficiency savings	(1.4)		
	<u>12.2</u>		

- H2 will be affected by higher power costs in winter

South West Water

Analysis of Efficiency Savings – first half 2006/07

	£m
• Manpower	0.5
• Raw materials	0.4
• Power usage	0.4
• Other	0.1
	<hr/>
	1.4
	<hr/>

- **K4 target: £13m pa base opex savings by 2009/10**
- **K4 to date: £5.4m**

South West Water

Operational Performance Summary

- Highest ever drinking water and river water quality
 - highest proportion of high quality rivers in England
- South West bathing waters 100% compliant for the first time
- Tenth consecutive year without hosepipe bans and drought orders
- Purchase of Park Lake – to be region's 4th largest reservoir
- Continues to be an industry leader in managing leakage; OFWAT target met for seventh consecutive year (since targets began)
- OPA ranking improvement consolidated
- Continued high performance on customer "Levels of Service Indicators"
- "Service+" successfully launched
- Delivering refocused capital programme

South West Water *Capital Programme*

- Capital expenditure half year to 30 September 2006 – £83.7m (H1 2005 - £69.2m)
 - 330km water mains replaced/refurbished (H1 2005 - 350km)
- K4 capital programme on track
 - investment to date £275m (outturn prices)
- K4 capital programme of £762m (2002/03 price base)
 - **targeting 5% outperformance**

South West Water Regulatory Capital Value

Year End	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
At 2002/03 prices ⁽¹⁾	1,847	1,929	1,994	2,042	2,095	2,136
Actual/Projected outturn prices ⁽²⁾	1,956	2,091	2,213	2,324	2,443	2,554

- 31% growth in RCV 2005-10 – highest projected percentage increase of any quoted water company
- Growth in RCV significantly exceeding growth in net debt (excluding effect of capital return)

⁽¹⁾ Source: Ofwat

⁽²⁾ Source: South West Water

Viridor

Viridor

Financial Performance Summary

	For the half year ended 30 September			Full Year
	2006 £m	2005 £m	Change %	2005/06 £m
Turnover ⁽¹⁾	178.2	152.0	17.2	298.9
EBITDA	39.8	31.8	25.2	66.7
PBITA	21.8	16.8	29.8	35.9

- **Particularly strong growth in turnover, EBITDA and PBITA**

⁽¹⁾ Including landfill tax

Viridor

Financial Highlights

- At beginning of year projected moderate growth in operating profit before intangibles
 - after strong growth in each of previous five years
- H1 revenue up 17.2% or £26.2m (£17.9m excluding landfill tax)
- EBITDA up 25.2%
- PBITA up £5.0m or 29.8% to £21.8m reflecting:
 - acquisitions (Wyvern Waste and full 6 months of Brett)
 - one-off disposal profit £0.6m
 - excluding acquisitions ⁽¹⁾ and non-recurring items ⁽²⁾ underlying business grew by 11%
- All segments show profit growth
- Capex £29.9m (H1 2005 - £23.9m)

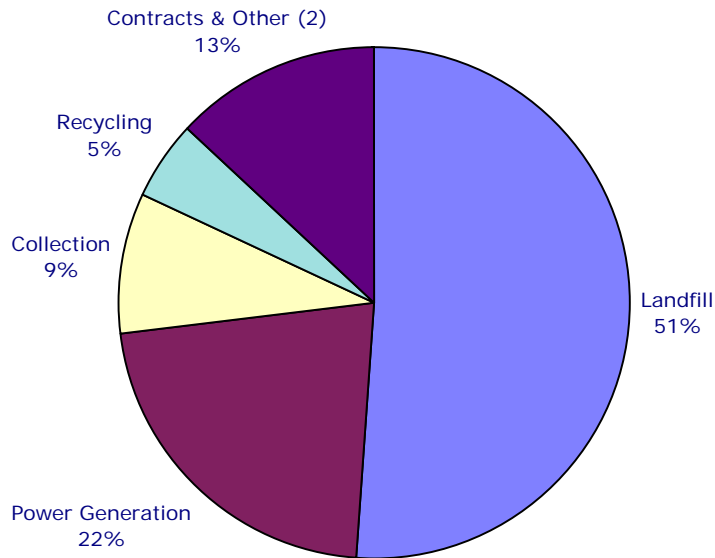
(1) Brett Waste acquired June 2005; Wyvern Waste acquired May 2006

(2) Sludge contract at Masons in H1 2005/06; business disposal profit in 2006/07

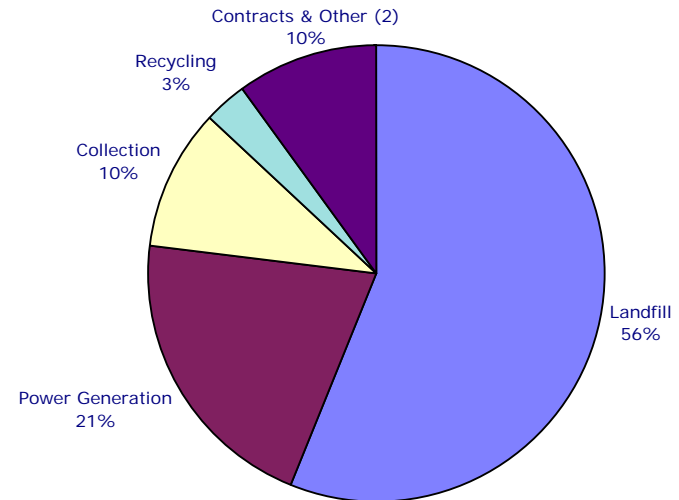
Viridor

Profit Contribution by Segment (1)

Half Year Ended 30 September 2006



Half Year Ended 30 September 2005



(1) Contribution before intangibles and overheads (incl pensions)

(2) "Contracts" include West Sussex PFI, other civic amenity contracts and sludge contracts and "Other" includes asset disposals

Viridor

Operational and Business Highlights – Landfill (I)

- Total landfill volumes increased by 1.6% to 2.2m tonnes reflecting Brett and Wyvern Waste acquisitions
- Major one-off sludge contract in H1 2005/06
- Excluding the above, underlying volume was 0.1m tonnes lower

Viridor

Operational and Business Highlights – Landfill (II)

- Average gate fees increased by 11% to £19 per tonne
- Consented landfill capacity grew from 87m cubic metres 31 March 2006 to 91m cubic metres 30 September 2006 reflecting
 - Wyvern acquisition 5
 - net planning gains 2
 - usage (3)

Viridor

Operational and Business Highlights – Power Generation

- Total landfill gas power generation increased by 17.8% to 207 GWH
- Average price increased 7.2% from £58 per MWH to £62 per MWH
 - prices increased 16.5% excluding Wyvern (mainly NFFO)
 - reflecting strong brown energy prices and ROCs premium
 - timing of sales contracts particularly favourable; current brown energy prices significantly lower
- Total capacity grew 9 MW from 31 March 2006 to 70 MW at 30 September 2006 (of which Wyvern contributed 7 MW)
- 46% ROCs; 54% NFFO at 30 September 2006

Viridor

Wyvern Waste Acquisition/Somerset PPP

- In May 2006 completed acquisition of Wyvern Waste for £25m (including £3m cash on balance sheet) and entered into 25 year Public Private Partnership agreement with Somerset County Council
- Wyvern Waste
 - 5m cubic metres consented landfill void
 - 7 MW landfill gas power generation capacity (mainly NFFO)
 - associated recycling and transfer operations
 - good geographic fit with Viridor's existing operations
- Operational integration already complete and the business is performing well

Viridor

Operational and Business Highlights – Recycling Partners

- Viridor provides waste services to 4 of the 5 top recycling counties in the UK
 - Suffolk
 - Devon
 - Somerset
 - Cambridgeshire
- Bury St Edmunds, the top performing council in the UK, is one of Viridor's clients at the Mason's MRF
- 'Beacon status' for excellence awarded to two of Viridor's local authority partners

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Significant New Projects

- **Poole** disposal contract 70kt pa extension to 2027
 - including access to Lakeside
- **Plymouth** landfill contract 120kt pa for 7 years starting in April 2008
- **Greater Manchester landfill** contract 100kt pa for 5 years starting in April 2008
- **Lakeside** energy from waste plant
 - joint venture with Grundon Waste Management building 400kt/32MW energy from waste plant at Colnbrook near Heathrow
 - £160m capex, 86% non-recourse debt with balance split equally between equity providers
 - under construction and on schedule to open second half calendar 2008
- **Greater Manchester Waste Disposal Authority** contract
 - BAFO submitted November 2006
 - preferred bidder expected to be announced in January

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Lakeside Energy from Waste Plant – under construction



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Lakeside Energy from Waste Plant – artist's impression





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Summary

- Strategy clearly focused on water, sewerage and waste management
- South West Water
 - delivery well under way of K4 contract
 - strong growth in K4 RCV reaching £2.6bn by March 2010
- Viridor delivering strong growth by
 - capitalising on landfill asset base
 - exploiting landfill gas power generation opportunities
 - PFIs/PPPs/Lakeside
- Efficient financing

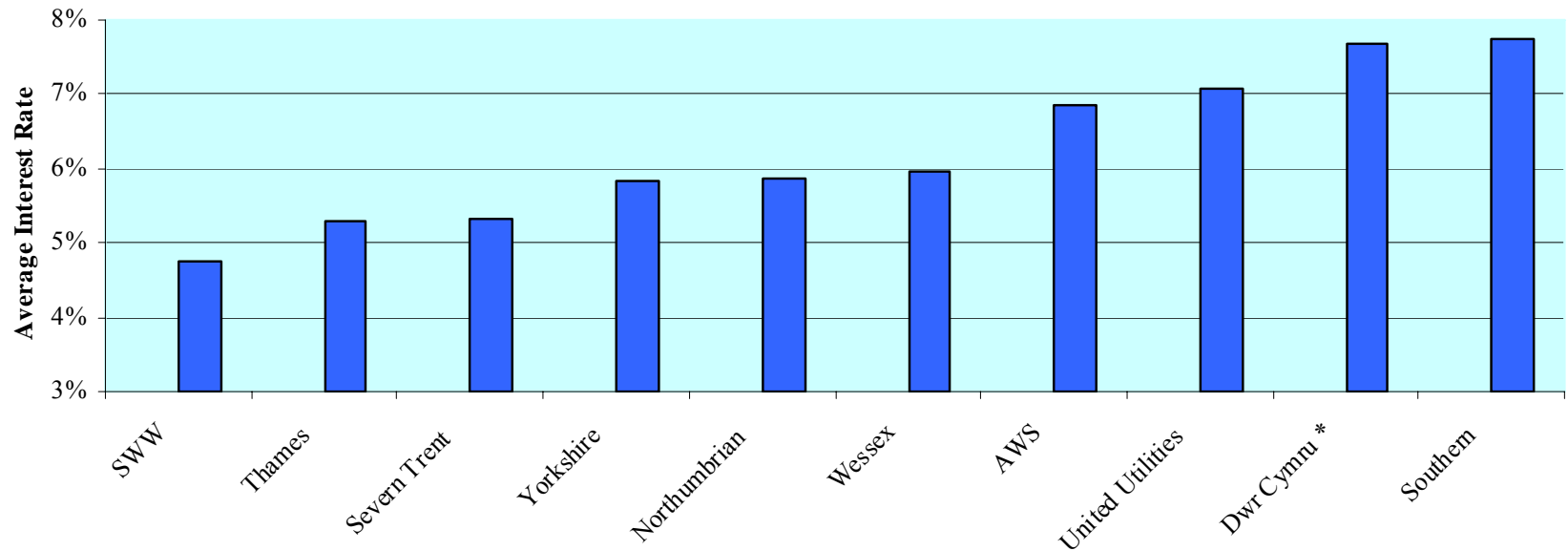


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Appendix A

**Water Industry 2005/06 Average Interest Rate
(Pre Exceptional Items)**



Source: Annual Reports and Regulated accounts

Basis: Net Interest Payable/Average Net Debt

* Accounts prepared under IFRS