

Preliminary Results 2005/06

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2005/06 Financial Highlights

- Operating profit up 16.0% to £175.1m⁽¹⁾
 - South West Water up 15.8% to £141.5m
 - Viridor Waste up 19.7% to £35.9m before amortisation of intangibles
- Profit before tax up 24.6% to £110.9m⁽¹⁾
- Earnings per share up 17.4% to 75.5p⁽²⁾
- £200m capital return
- £14.5m SWW customer payment
- Dividend
 - Recommended final dividend per share up 20.2% to 35.1p
 - Full year dividend up 20.0% to 51.6p
 - Dividend policy of 3% pa real increases until 2009/10
- Proposed 3 for 1 stock split

⁽¹⁾ *Before exceptional items*

⁽²⁾ *Before exceptional items and deferred tax*

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2005/06 Operational Highlights

- South West Water
 - On target to deliver 2005 - 2010 Regulatory contract
 - Profit increase reflecting strong growth in Regulatory Capital Value (RCV) in 2005/06
 - Successful re-focusing of capital programme to mains rehabilitation and asset maintenance
- Viridor Waste
 - Continued strong growth in profits, from landfill, power generation and contracts
 - Brett Waste acquired June 2005 – now successfully integrated and earnings enhancing in its first year
 - Lakeside energy from waste plant joint venture signed September 2005 – now fully financed and under construction
 - Wyvern Waste acquired May 2006 for £25m and long term PPP contract signed with Somerset County Council



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(All figures IFRS compliant unless otherwise indicated; prior year figures restated)

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Summary Financial Results

	2005/06	2004/05	Change
	£m	£m	
Group revenue	645.7	551.4	17.1%
Group operating profit ⁽¹⁾	175.1	150.9	16.0%
Group profit before tax ⁽¹⁾	110.9	89.0	24.6%
Earnings per share ⁽²⁾	75.5p	64.3p	17.4%

(1) Before exceptional items

(2) Before exceptional items and deferred tax

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Exceptional Items

	2005/06	2004/05
	£m	£m
<i>Continuing operations</i>		
SWW customer payment	(14.5)	-
Abortive acquisition costs	-	(1.5)
Business restructuring	-	(3.4)
Operating profit impact	<u>(14.5)</u>	<u>(4.9)</u>
Bond retirement	(50.2)	-
Receipt on transfer of lease	7.9	-
Pre tax impact	<u>(56.8)</u>	<u>(4.9)</u>
Corporation tax	18.7	-
Post tax impact	<u>(38.1)</u>	<u>(4.9)</u>

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Cash Flow including exceptional items

	2005/06	2004/05
	£m	£m
Cash inflow from operations before pension prepayment	276.3	242.4
Net interest paid	(106.4)	(59.1)
Dividends and tax paid	(36.3)	(28.7)
Capital expenditure net of disposal proceeds	(213.8)	(164.8)
Acquisitions/disposals	(40.8)	(28.6)
Pensions prepayment	(44.2)	-
Net cash outflow	(165.2)	(38.8)
Shares issued	1.6	0.8
B Share payments	(137.8)	-
Non-cash movements	(7.5)	(2.5)
Increase in net borrowings	(308.9)	(40.5)

- **Increase in net borrowings - £308.9m reflecting capital return, Brett acquisition and pension prepayment**

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Net Borrowings

As at 31 March

	2006 £m	2005 £m
Loans and finance leases		
- over one year	1,472	1,367
- under one year	54	55
	<hr/>	<hr/>
	1,526	1,422
Less: investment and cash	(99)	(304)
	<hr/>	<hr/>
Net debt	1,427	1,118
Net gearing ⁽¹⁾	71%	61%
SWW debt/RCV	62.5%	52.4%

⁽¹⁾ Debt/(equity + debt)

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Net Interest Payable

	2005/06	2004/05
	£m	£m
Interest payable ⁽¹⁾	(96.8)	(89.3)
Interest receivable ⁽¹⁾	32.5	27.3
Net interest payable	<u>(64.3)</u>	<u>(62.0)</u>
Average rate of interest	5.1%	5.6%
Net interest cover ⁽¹⁾	2.7x	2.4x

- **Effective management of interest rates – SWW: 4.7%**

⁽¹⁾ Before exceptional items

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Financing Initiatives

- Funding strategy uses mix of fixed, floating and index linked rate borrowings
- Locks-in benefit of low interest rates compared to Ofwat assumptions
- Over 65% of SWW debt fixed to March 2007
- 60% of SWW debt fixed to March 2010
- 10% SWW debt index linked to 2041
 - New £142m finance lease for SWW
- £70m facility with EIB now drawn
- Committed funding in place for SWW up to 2007/08
- £150m 2012 10.625% bond retired January 2006

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Taxation

	2005/06 £m	2004/05 £m
UK corporation tax ⁽¹⁾	14.8	7.9
Deferred tax	20.2	15.6
	<u>35.0</u>	<u>23.5</u>

- **Mainstream tax charge 13%**
- **Deferred tax not discounted under IFRS**

⁽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 31 March 2006 (2005 - £56m)
- Deficit includes impact of c£44m employer contribution prepayment (c£31m net of tax) for period up to 2009/10
- Net deficit represents c2% of market capitalisation

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Landfill Restoration Accounting

- In 2006 the accounting methodology for landfill restoration costs changed
 - to be consistent with majority of other large waste companies
- Rather than restoration provision being built up over the site life as each tonne is input, a full provision is created at the start of the site life
- The increased provision is offset by corresponding increase in fixed assets
 - no impact on underlying asset value or cashflow
 - total provisions increased by £32m offset by corresponding increase in asset values
 - EBITDA increased by £2.9m in 2005/06
 - operating profit increased by £0.2m
 - higher interest charge (non cash) - unwind of discount
 - tax impact

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Capital Return/Dividends/Stock Split

- Capital return of £200m
 - £138m of B Share scheme returned in March 2006
 - Balance of B Share scheme returned in April 2006
 - £55m share buyback to be progressed
- Rebased dividend per share
 - Recommended final dividend up 20.2% to 35.1p
 - Full year dividend up 20.0% to 51.6p
- Dividend policy of 3% pa real increases until 2009/10
- Proposed 3 for 1 stock split, subject to shareholder approval



South West Water

Financial Performance Summary

	2005/6 £m	2004/05 £m	Change
Revenue	348.5	307.0	13.5%
Operating profit ⁽¹⁾	141.5	122.2	15.8%

⁽¹⁾ Before exceptional costs of £14.5m in 2005/6 and £3.4m in 2004/05

South West Water Revenue

- Increase of £41.5m (13.5%) in year

- Reflects impact of

£m

- tariff increase	49.5
- meter option switchers	(7.9)
- new connections	2.8
- demand	(3.5)
- other	0.6

- **Number of meter switchers** **30,800**
- **Number of new customers** **7,400**
- **Over half of domestic customers now metered**

South West Water Operating Costs

	2005/06 £m	2004/05 £m	Change
Total operating costs ⁽¹⁾	207.0	184.8	12.0%
Increase in total operating costs due to:			
- inflation (including power costs and chemicals)	8.4		
- new capital schemes	7.7		
- other (depreciation, leakage, full year effects)	10.1		
- efficiency savings	(4.0)		

- **Power costs – impact on 2006/07**

(1) Before exceptional costs of £14.5m in 2005/6 and £3.4m in 2004/05

South West Water

Analysis of Efficiency Savings

	£m
• Manpower	0.9
• Power usage	0.2
• Contracted services	2.0
• Other (primarily raw materials)	0.9
	<hr/>
	4.0
	<hr/>

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

South West Water

Operational Performance Summary

- Highest ever drinking water and river water quality
- Record 2005 bathing water compliance
- Continues to be an industry leader in managing leakage
- Reservoir water storage of 85%, 3% higher than last year
- No water restrictions envisaged
- Significant progress on sewage treatment work compliance following capital investment
- Largest OPA score improvement in 2004/05
- Increase in OPI (DWI measure) as direct result of mains rehabilitation

South West Water *Capital Programme*

- Capital expenditure 2005/06 – £191.0m (2004/05 – £134.5m)
 - almost 700km water mains replaced/refurbished (22% higher than 2004/05 and longest length ever)
- K4 capital programme of £762m (2002/03 price base)
 - targeting 5% outperformance

South West Water Regulatory Capital Value

Year End	2005	2006	2007	2008	2009	2010
	£m	£m	£m	£m	£m	£m
At 2002/03 prices ⁽¹⁾	1847	1929	1994	2042	2095	2136
Actual/expected outturn prices ⁽²⁾	1956	2091	2213	2324	2443	2554

- **31% growth in RCV 2005-10 – highest 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

WASTE

Viridor Waste

Continuing to Deliver Strong Financial Performance

	Year Ended 31 March						CAGR 2001-06
	2001 ⁽²⁾ £m	2002 ⁽²⁾ £m	2003 ⁽²⁾ £m	2004 ⁽²⁾ £m	2005 £m	2006 £m	
Turnover ⁽¹⁾	106.1	125.3	152.3	183.1	248.3	298.9	23.0%
EBITDA	28.8	32.1	38.2	43.2	56.4	66.7	18.3%
PBITA	13.1	15.2	19.1	22.7	30.0	35.9	22.3%

- **Strong growth in turnover, EBITDA and PBITA**

⁽¹⁾ Including landfill tax

⁽²⁾ UK GAAP

Viridor

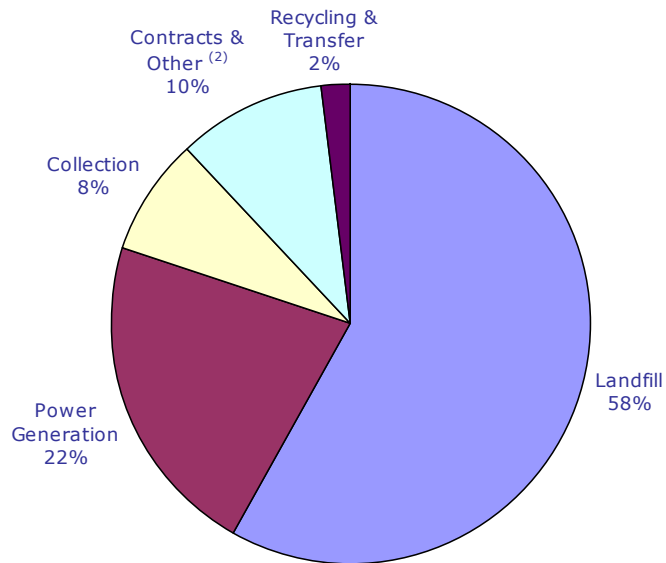
2005/06 Financial Highlights

- At beginning of year projected continued moderate growth in operating profit before intangibles
 - on top of strong performance in each of previous four years
- Revenue increased by £50.6m (20.4%) to £298.9m
 - of which Brett accounted for £21.3m and underlying business £29.3m
 - includes increase in landfill tax £19.8m
- PBITA increased by £5.9m (19.7%) to £35.9m
 - 11.7% due to Brett acquisition
 - 8.0% underlying business (landfill, power generation and contracts)
 - £0.2m due to restoration accounting change
- Capex £58.9m (2004/05 £45.8m)
- EBITDA increased by £10.3m (18.3%) to £66.7m
 - £2.9m due to restoration accounting charge

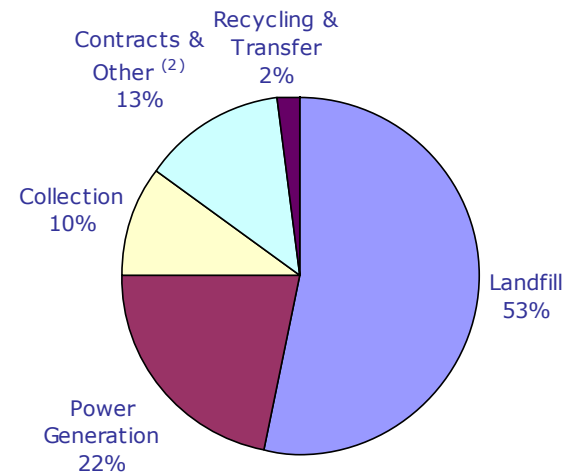
Viridor Waste

Profit Contribution by Segment ⁽¹⁾

Year Ended 31 March 2006



Year Ended 31 March 2005
(reclassified) ⁽³⁾



- (1) Contribution before intangibles and central overheads (incl pensions)
- (2) "Contracts" include West Sussex PFI, other civic amenity contracts and sludge contracts and "Other" includes asset disposals
- (3) Pensions included in central overheads

Viridor

Operational and Business Highlights – Landfill (I)

- Total volumes increased by 7% to 4.3m tonnes reflecting
 - Brett acquisition
 - non-recurring volumes in Q1 2004/05 preceding hazardous waste changes
 - major one-off sludge contract H1 2005/06
- Excluding the above underlying volume was unchanged
 - growth in industrial/commercial (particularly from VW's own fleet) offset decline in municipal waste

Viridor

Operational and Business Highlights – Landfill (II)

- Average gate fees increased by 9% to £17.67 per tonne
- Consented landfill capacity grew from 80m cubic metres 31 March 2005 to 87m cubic metres 31 March 2006 reflecting
 - Brett acquisition 11
 - usage (5)
 - net planning gains 1
- Wyvern Waste acquisition brings additional 5m cubic metres

Viridor Waste

Operational and Business Highlights – Power Generation

- Total landfill gas power generation increased by 12% to 367GWH
 - primarily Brett
- Average price increased from £53.90 per MWH to £59.30 per MWH
 - reflecting strong brown energy prices and ROCs premium
- Total capacity grew from 52 to 61 MW at 31 March 2006 (of which Brett contributed 6 MW)
- 52% ROCs; 48% NFFO at 31 March 2006
- Wyvern Waste brings additional 7 MW

Viridor Waste

2005/06 New Projects

- Brett Waste acquired in June 2005 for £44.4m
 - successfully integrated and earnings enhancing at net profit level (after integration costs and intangibles amortisation)
 - one year ahead of expectations
- Lakeside energy from waste plant
 - joint venture with Grundon Waste Management to build 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 in 2008

Viridor Waste

Wyvern Waste Acquisition/Somerset PPP (I)

- 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
 - historic EBITDA: £5.7m
 - good geographic fit with Viridor's existing operations

Viridor Waste

Wyvern Waste Acquisition/Somerset PPP (II)

- Wyvern Waste expected to be earnings enhancing before amortisation of intangibles in first full year
- First phase of PPP is likely to require c£25m capex up to 2010
- Second phase to be negotiated subsequently
- Viridor's second long-term integrated municipal contract

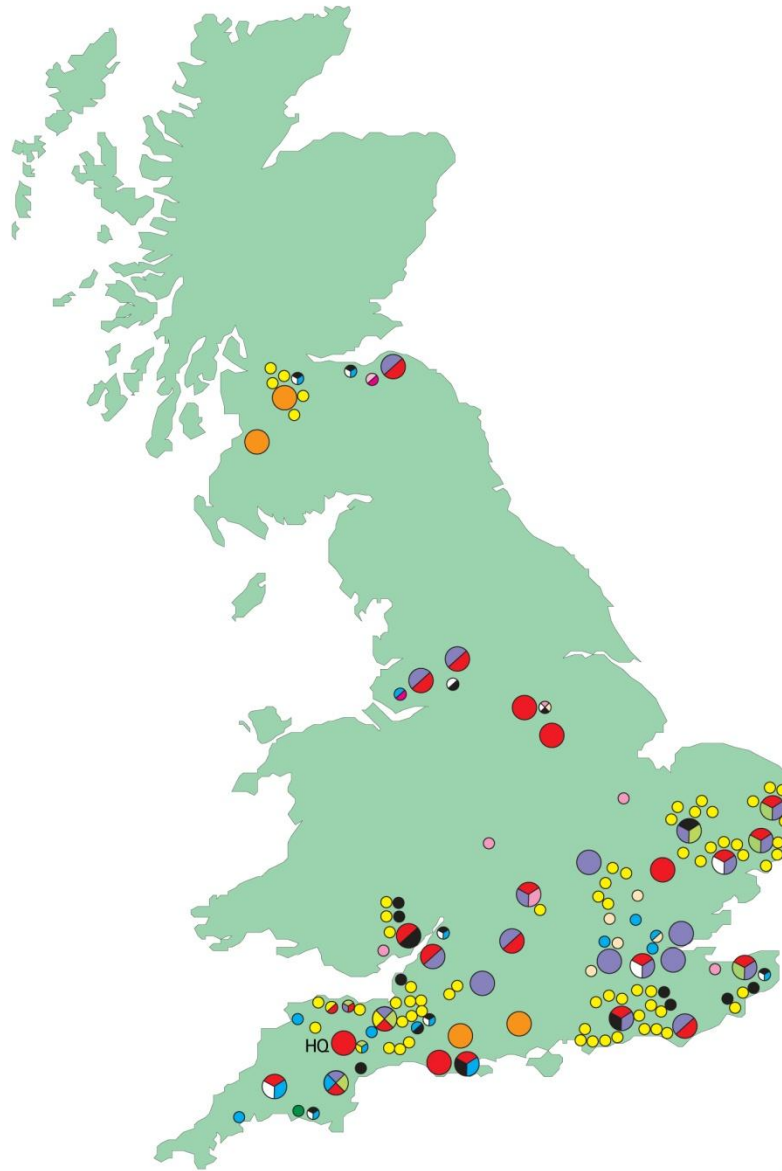
Viridor Waste

Other Developments

- Viridor continues to pursue other opportunities in line with its strategy
 - landfill
 - power generation
 - long-term municipal contracts
- Viridor/Laing's partnership one of two consortia shortlisted for Greater Manchester waste management services PFI
 - Viridor also shortlisted for Greater Manchester landfill disposal contract

Viridor Waste Management Main UK Operations

- Landfill Site - Operational
- Landfill Site - With Planning
- Power Generation Plant
- Glass Recycling Plant
- Transport Depot
- Transfer Station
- Incineration Plant
- MRF Plant
- Glass Recycling Depot
- Waste Treatment Plant
- Composting Site
- Civic Amenity Site





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Summary

- Strategy clearly focused on water, sewerage and waste management
- Further creation of shareholder value through improved balance sheet efficiency
 - return of £200m capital
 - 2005/06 dividend rebased – 20% increase
 - dividend policy: 3% pa real increases until 2009/10
- South West Water
 - £20 per customer payment
 - delivery under way of K4 contract
 - strong growth in K4 RCV reaching £2.6bn by March 2010
- Viridor Waste delivering strong growth by
 - capitalising on landfill asset base
 - exploiting landfill gas power generation opportunities
 - PFIs/PPPs/Lakeside



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