

## KELDA GROUP PLC

### Half Year Results Announcement for the six months ended 30 September 2007

#### HIGHLIGHTS

- \* Continued strong performance from the Yorkshire Water business
- \* Further growth from Kelda Water Services
- \* Industry leading improvements in customer service and operations

#### KEY FIGURES

|  | 2007    | 2006    | Increase |
|--|---------|---------|----------|
| Group revenue  | £434.9m | £411.7m | 5.6%     |
| Group operating profit from continuing operations    | £184.8m | £170.0m | 8.7%     |
| Adjusted earnings per share (excluding deferred tax) | 32.4p   | 27.1p   | 19.6%    |
| Interim dividend per share                           | 10.65p  | 9.25p   | 15.1%    |

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A copy of this results announcement will be available on the Kelda Group website at [www.keldagroup.com](http://www.keldagroup.com).

Commenting on the results, Kelda Chairman John Napier said:

“A strong start to the year where efficiency and service gains were made despite testing flood related operational conditions.”

#### CHIEF EXECUTIVE'S REVIEW

##### Overview

The group has progressed extremely well in a period that witnessed testing operational circumstances, caused by exceptional weather conditions. 2007/08 is the peak year for the capital investment programme, and the first six months have seen significant investment. Our focussed strategy continues to work to the benefit of all our stakeholders.

##### Group financial performance

The first half of the year has produced solid financial results, with progress being made in a number of areas. Group revenue from continuing operations, excluding associates, was £434.9m, of which Yorkshire Water's regulated business contributed 90%. Group operating profit from continuing operations was £184.8m.

The increase in profitability reflects the underlying strength of the group's core business of Yorkshire Water and steady organic growth in Kelda Water Services ('KWS'). The increase in Yorkshire Water's profit reflects the 7.9% tariff increases coupled with the continuing drive for efficiency savings. Energy costs, which increased dramatically last year, have fallen slightly in the current half year. The energy for the remainder of the year has been forward purchased.

Group operating profit includes exceptional costs of £5.8m, relating primarily to the costs associated

with the return of capital that was successfully completed during this period.

The increase in net interest payable of 18.9% to £59.2m reflects the increase in net debt following the return of capital. Group interest cover was 3.1 times (2006: 3.4 times) and cash interest cover was 3.5 times (2006: 4.2 times).

As a result of the above, group profit on continuing activities before taxation increased to £125.6m (2006: £120.2m).

Our exit from the US is now substantially complete. A re-appraisal of the exit provision, established at 31 March 2007, has led to a further provision of £3.9m, included within discontinued operations.

#### Taxation

The group's taxation credit of £1.0m comprises a charge of £31.3m for current tax and a credit of £32.3m for deferred tax. The latter includes a credit of £40.0m for a recalculation of our deferred tax balance due to the change of tax rate from 30% to 28%, with effect from 1 April 2008. This recalculation has distorted the tax charge and basic earnings per share figures for the current year, and so to give greater comparability, adjusted earnings per share figures excluding deferred tax have been highlighted.

Excluding the effect of this recalculation, the effective tax rate is 31.0% (2006: 30.3%), which has been calculated based on the expected effective rate for the full year.

#### Earnings per share and dividends

Adjusted earnings per share for the period are 32.4p (2006: 27.1p). This excludes exceptional items, impairment charges and deferred tax. Basic earnings per share are 39.7p (2006: 21.7p).

An interim dividend of 10.65p (2006: 9.25p) will be paid on 4 January 2008 to shareholders on the register on 7 December 2007. This dividend, which has increased by 15.1%, has been adjusted to take account of the return of capital and share consolidation.

#### Balance sheet

The return of capital to shareholders resulted in a reduction to shareholders' funds of approximately £750m, with a corresponding increase in borrowings. This has increased the group's balance sheet gearing from 57.9% to 76.2%.

Group net debt at 30 September 2007 was £2,493.6m, an increase of £595.5m compared with the prior year. Cash generated by continuing operations in the period was £291.8m (2006: £290.4m), which helped to finance capital payments of £209.8m (2006: £171.6m).

#### Pensions

At 30 September 2007, the group held a pension surplus under IAS 19 of £33.1m (2006: deficit of £84.7m). Part of this improvement is as a result of the £50m one-off payment in March 2007.

The triennial actuarial valuation of the pension scheme as at 31 March 2007 has been completed. The funding deficit has decreased significantly from £107m in 2004 to £10m and it is planned to be eliminated over the five year period to March 2013. Whilst company pension contributions to eliminate the deficit are reduced, the future service cost has increased, leaving overall a modest reduction in company pension contributions from 1 April 2008.

#### Yorkshire Water

Regulated revenue in the period increased to £392.0m (2006: £368.9m). Operating profit increased by 9.8% to £184.4m (2006: £168.0m) and additions to capital expenditure of £189.0m (2006: £151.6m) are running at a higher level this year.

Yorkshire Water faced a difficult summer, with poor weather and flooding affecting operational assets across the region. The unprecedented rainfall was a major challenge to the business. The financial impact of flooding, particularly around property damage, is expected to be substantially mitigated by insurance and will be quantified with the year end results. An impact upon measured income was

also noted during the period.

Yorkshire Water was ranked second in Ofwat's OPA table in 2006/07 for the second year running, an exceptional performance. Yorkshire Water is the only company that has not been out of the top four since 2001, and has been in the top three for three years running. Customer service has also remained high, with the number of written complaints received falling to 23 complaints per 10,000 customers, compared to the average number across all water companies of 80 per 10,000 customers.

Programmes to improve the quality of service and efficiency have continued throughout the period, in particular our Clearwater and 2020 schemes. Yorkshire Water strives to outperform financial and other targets set by Ofwat.

#### UK service operations and KeyLand

UK service operations includes KWS, a leading UK water and waste water contract operations company, Loop and Safe-Move. Revenue from these businesses, including our share of associates' and joint ventures' revenue, amounted to £100.6m (2006: £64.1m) and operating profit to £7.3m (2006: £5.2m).

KWS continued to grow during the period, with increases of 60.4% in revenue and 25.6% in operating profit. The contract to initially construct water treatment facilities for Water Service Northern Ireland, and then to operate them, is ahead of schedule and has contributed to the results.

Loop continued to support Yorkshire Water in meeting Ofwat targets and has enjoyed a successful period of rising scores in the Ofwat Customer Satisfaction Survey.

KeyLand recorded revenue of £49.5m (2006: £2.0m) and operating profit of £5.6m (2006: £1.2m), representing an improved performance against comparative figures.

During the period, KeyLand entered into a joint venture arrangement with Evans of Leeds to develop a significant site at Knostrop in the Aire Valley to the east of Leeds. The project will contribute to the regeneration of this area, and management is confident of its potential to be successful.

#### Principal risks and uncertainties

The group considered its principal risks and uncertainties to be changes to the regulatory environment, changes to legislation, climatic changes, social influences and supplier markets.

In the next six months, certain developments are expected in relation to the regulatory environment including finalisation of the Ofwat framework document relating to setting price limits for 2010-2015.

Further detail on the risks and uncertainties is included in the annual financial statements for the year ended 31 March 2007.

Kevin Whiteman  
Chief Executive

#### Group income statement

|   |      | Unaudited        |             | Audited     |
|---|------|------------------|-------------|-------------|
|   |      | Six months ended |             | Year ended  |
|   |      | 30 Sep 2007      | 30 Sep 2006 | 31 Mar 2007 |
|   | Note | £m               | £m          | £m          |
| Group revenue   | 2    | 434.9            | 411.7       | 832.6       |
| Operating costs                                       |      | (243.7)          | (241.5)     | (494.6)     |
| Exceptional items                                     |      | (5.8)            | -           | -           |
|   |      | ----             | ----        | ----        |
| Group operating profit before share of associates and |      | 185.4            | 170.2       | 338.0       |

joint ventures

|  |    |        |        |         |
|--|----|--------|--------|---------|
| Share of associates' and joint ventures' (loss)/profit after tax     |    | (0.6)  | (0.2)  | 0.2     |
|  |    | ----   | ----   | ----    |
| Group operating profit from continuing operations                    | 2  | 184.8  | 170.0  | 338.2   |
| Investment income  |    | 32.0   | 25.6   | 64.1    |
| Finance costs  |    | (91.2) | (75.4) | (161.1) |
|  |    | ----   | ----   | ----    |
| Profit from continuing operations before taxation                    |    | 125.6  | 120.2  | 241.2   |
| Tax credit/(expense)   | 3  | 1.0    | (36.4) | (69.5)  |
|  |    | ----   | ----   | ----    |
| Profit for the period from continuing operations                     |    | 126.6  | 83.8   | 171.7   |
| Discontinued operations  |    |        |        |         |
| Loss for the period  | 10 | (3.9)  | (6.1)  | (20.4)  |
|  |    | ----   | ----   | ----    |
| Profit for the period attributable to equity shareholders            | 8  | 122.7  | 77.7   | 151.3   |
|  |    | ----   | ----   | ----    |
| Basic EPS on profit for the period                                   | 4  | 39.7p  | 21.7p  | 42.3p   |
| Basic adjusted EPS excluding deferred tax on profit for the period   | 4  | 32.4p  | 27.1p  | 61.4p   |
| Basic EPS on profit from continuing operations for the period        | 4  | 40.9p  | 23.4p  | 48.1p   |
| Diluted EPS on profit for the period                                 | 4  | 39.5p  | 21.6p  | 42.1p   |
| Diluted adjusted EPS excluding deferred tax on profit for the period | 4  | 32.2p  | 27.0p  | 61.2p   |
| Diluted EPS on profit from continuing operations for the period      | 4  | 40.7p  | 23.3p  | 47.9p   |
|  |    | ----   | ----   | ----    |
| Dividends paid per share in the period                               |    | 23.0p  | 21.6p  | 30.85p  |
| Dividends proposed per share in the period                           |    | 10.65p | 9.25p  | 32.25p  |
|  |    | ----   | ----   | ----    |

Group statement of recognised income and expense

|   | Unaudited        |             | Audited     |
|---|------------------|-------------|-------------|
|   | Six months ended |             | Year ended  |
|   | 30 Sep 2007      | 30 Sep 2006 | 31 Mar 2007 |
|   | £m               | £m          | £m          |
| Recycling of losses on cash flow hedges to the income statement                                   | (2.8)            | -           | (2.9)       |
| Gains on hedges taken to equity   | -                | 4.3         | 19.1        |
| Exchange differences on retranslation of foreign operations                                       | (1.4)            | (4.4)       | (7.9)       |
| Actuarial gains/(losses) in respect of defined benefit pension and other post-retirement benefits | 19.3             | (23.1)      | 26.1        |
| Tax on items taken directly to equity   | (4.6)            | 5.9         | (12.7)      |
| Other   | (0.6)            | -           | (2.8)       |
|   | ----             | ----        | ----        |
| Total of items taken directly to equity   | 9.9              | (17.3)      | 18.9        |
| Profit for the year attributable to equity shareholders   | 122.7            | 77.7        | 151.3       |
|   | ----             | ----        | ----        |
| Total recognised income and expense for the period  | 132.6            | 60.4        | 170.2       |

Group balance sheet

|  |          | Unaudited        |                  | Audited          |
|--|----------|------------------|------------------|------------------|
|  |          | At 30 Sep        |                  | At 31 Mar        |
|  |          | 2007             | 2006             | 2007             |
|  | Note     | £m               | £m               | £m               |
| <b>Non-current assets</b>  |          |                  |                  |                  |
| Intangible assets  | 5        | 14.2             | 14.2             | 14.5             |
| Property, plant and equipment                                    | 5        | 4,073.6          | 3,861.4          | 3,975.3          |
| Investments in associated undertakings and joint ventures        |          | 1.1              | 1.6              | 2.0              |
| Loans to associated undertakings and joint ventures              |          | 24.8             | 19.4             | 21.2             |
| Retirement benefits surplus                                      |          | 33.1             | -                | 7.3              |
|  |          | ----             | ----             | ----             |
|  |          | 4,146.8          | 3,896.6          | 4,020.3          |
|  |          | ----             | ----             | ----             |
| <b>Current assets</b>  |          |                  |                  |                  |
| Inventories  |          | 0.7              | 0.6              | 0.6              |
| Trade and other receivables                                      |          | 228.3            | 150.2            | 157.2            |
| Cash and cash equivalents  | 6        | 10.5             | 16.4             | 102.0            |
| Assets included in disposal groups held for sale                 |          | -                | 602.1            | 596.0            |
|  |          | ----             | ----             | ----             |
|  |          | 239.5            | 769.3            | 855.8            |
|  |          | ----             | ----             | ----             |
| <b>Total assets</b>  |          | <b>4,386.3</b>   | <b>4,665.9</b>   | <b>4,876.1</b>   |
|  |          | ----             | ----             | ----             |
| <b>Current liabilities</b>                                       |          |                  |                  |                  |
| Trade and other payables   |          | (326.4)          | (254.0)          | (241.3)          |
| Tax liabilities  |          | (48.9)           | (43.4)           | (35.6)           |
| Short term borrowings  |          | (144.3)          | (333.5)          | (314.1)          |
| Liabilities included in disposal groups held for sale            |          | (8.0)            | (256.0)          | (285.0)          |
|  |          | ----             | ----             | ----             |
|  |          | (527.6)          | (886.9)          | (876.0)          |
|  |          | ----             | ----             | ----             |
| <b>Non-current liabilities</b>                                   |          |                  |                  |                  |
| Long term borrowings   |          | (2,359.8)        | (1,580.9)        | (1,769.5)        |
| Long term payables   |          | (63.2)           | (69.5)           | (76.0)           |
| Financial liabilities  |          | (1.2)            | -                | (0.5)            |
| Deferred grants and contributions on depreciated assets          |          | (78.0)           | (80.8)           | (79.4)           |
| Provisions   |          | (1.0)            | (3.9)            | (1.2)            |
| Deferred tax liabilities   |          | (578.7)          | (576.8)          | (611.0)          |
| Retirement benefits obligation                                   |          | -                | (84.7)           | -                |
|  |          | ----             | ----             | ----             |
|  |          | (3,081.9)        | (2,396.6)        | (2,537.6)        |
|  |          | ----             | ----             | ----             |
| <b>Total liabilities</b>   |          | <b>(3,609.5)</b> | <b>(3,283.5)</b> | <b>(3,413.6)</b> |
|  |          | ----             | ----             | ----             |
| <b>Net assets</b>  |          | <b>776.8</b>     | <b>1,382.4</b>   | <b>1,462.5</b>   |
|  |          | ----             | ----             | ----             |
| <b>Capital and reserves</b>                                      |          |                  |                  |                  |
| Issued share capital   | 9        | 55.9             | 55.8             | 55.8             |
| Share premium account  | 8        | 13.1             | 16.7             | 16.7             |
| Reserves   | 8        | 707.8            | 1,309.9          | 1,390.0          |
|  |          | ----             | ----             | ----             |
| <b>Total equity attributable to equity holders of the parent</b> | <b>8</b> | <b>776.8</b>     | <b>1,382.4</b>   | <b>1,462.5</b>   |
|  |          | ----             | ----             | ----             |

Group cash flow statement

|  | Note | Unaudited   |             | Audited                   |
|--|------|-------------|-------------|---------------------------|
|  |      | 30 Sep 2007 | 30 Sep 2006 | Year ended<br>31 Mar 2007 |
|  |      | £m          | £m          | £m                        |
| Cash generated by continuing operations                                    |      | 291.8       | 290.4       | 489.4                     |
| Income taxes paid  |      | (21.5)      | (24.9)      | (42.7)                    |
| Interest paid  |      | (78.0)      | (54.4)      | (101.0)                   |
| Cash flows from discontinued operations                                    |      | -           | 37.7        | 38.4                      |
|  |      | ----        | ----        | ----                      |
| Net cash inflow from operating activities                                  |      | 192.3       | 248.8       | 384.1                     |
|  |      | ----        | ----        | ----                      |
| Investing activities   |      |             |             |                           |
| Interest received  |      | 5.7         | 4.6         | 10.6                      |
| Loans to associates and joint ventures                                     |      | (3.1)       | (0.7)       | (2.1)                     |
| Proceeds on disposal of subsidiaries                                       | 10   | 314.2       | -           | -                         |
| Proceeds on disposals of property, plant and equipment                     |      | 1.8         | 1.0         | 6.2                       |
| Purchases of property, plant and equipment                                 |      | (209.8)     | (171.6)     | (358.7)                   |
| Capital grants and contributions   |      | 9.3         | 5.0         | 25.1                      |
| Cash flows from discontinued operations                                    |      | -           | (21.5)      | (34.3)                    |
|  |      | ----        | ----        | ----                      |
| Net cash used in investing activities                                      |      | 118.1       | (183.2)     | (353.2)                   |
|  |      | ----        | ----        | ----                      |
| Financing activities   |      |             |             |                           |
| Dividends paid   |      | (82.0)      | (76.8)      | (109.7)                   |
| Payments under the B share scheme  |      | (738.3)     | -           | -                         |
| Repayment of 5.25% Eurobond  |      | -           | -           | (401.3)                   |
| Proceeds from issuance of bonds  |      | 600.0       | -           | 250.0                     |
| (Repayments of)/proceeds from other borrowings                             |      | (179.5)     | 0.9         | 358.9                     |
| Repayment of obligations under finance leases and hire purchase agreements |      | (2.1)       | -           | (62.3)                    |
| Repurchase of own shares   |      | -           | (59.3)      | (59.3)                    |
| Cash and cash equivalents attributable to discontinued operations          |      | (9.4)       | -           | 9.5                       |
|  |      | ----        | ----        | ----                      |
| Net cash used in financing activities                                      |      | (411.3)     | (135.2)     | (14.2)                    |
|  |      | ----        | ----        | ----                      |
| Net (decrease)/increase in cash and cash equivalents                       |      | (100.9)     | (69.6)      | 16.7                      |
|  |      | ----        | ----        | ----                      |
| Cash and cash equivalents at beginning of the year                         |      | 111.4       | 95.7        | 95.7                      |
|  |      | ----        | ----        | ----                      |
| Effect of foreign exchange rate changes on cash and cash equivalents       |      | -           | (0.7)       | (1.0)                     |
|  |      | ----        | ----        | ----                      |
| Cash and cash equivalents at the end of the year                           | 6    | 10.5        | 25.4        | 111.4                     |
|  |      | ----        | ----        | ----                      |

Notes to the half-yearly financial information



|   |      |       |      |        |      |        |
|---|------|-------|------|--------|------|--------|
| Discontinued operations                     |      |       |      |        |      |        |
| US operations                               | 14.4 | 1.2   | 53.0 | 23.0   | 99.4 | 41.6   |
| Interest and tax on discontinued operations |      | (1.2) |      | (8.2)  |      | (16.5) |
|   | ---- | ----  | ---- | ----   | ---- | ----   |
| Profit on discontinued operations           |      | -     |      | 14.8   |      | 25.1   |
| Income statement charge relating to US exit |      | (3.9) |      | (20.9) |      | (45.5) |
|   | ---- | ----  | ---- | ----   | ---- | ----   |
| Loss for the period (note 10)               |      | (3.9) |      | (6.1)  |      | (20.4) |

The sale of Aquarion's regulated water business was announced on 1 May 2007. The completion of the sale of Aquarion Operating Services, which was excluded from the original sale, was announced on 23 July 2007. Both divisions were treated as discontinued for the period of ownership during the period.

Operating costs are shown net of other operating income, which incorporates profits in respect of the group's property sales including those made by KeyLand.

Exceptional items (included within group operating profit) relate primarily to the costs associated with the return of capital that was completed during the period.

The directors do not consider the underlying businesses to be subject to significant seasonal fluctuations.

### 3. Tax credit/(expense)

|  |              | Unaudited        |             | Audited     |
|--|--------------|------------------|-------------|-------------|
|  |              | Six months ended |             | Year ended  |
|  |              | 30 Sep 2007      | 30 Sep 2006 | 31 Mar 2007 |
|  |              | £m               | £m          | £m          |
| Tax relating to continuing operations: | Current tax  | (31.3)           | (31.8)      | (49.6)      |
|  | Deferred tax | 31.5             | (4.6)       | (22.8)      |
| Prior period adjustments:              | Current tax  | -                | -           | 1.4         |
|  | Deferred tax | 0.8              | -           | 1.5         |
|  |              | ----             | ----        | ----        |
|  |              | 1.0              | (36.4)      | (69.5)      |
|  |              | ----             | ----        | ----        |

The group's current tax expense comprises corporation tax calculated at the estimated effective tax rates for the year.

Deferred tax includes a credit of £40.0m as a result of the change in the rate of corporation tax from 30% to 28% from 1 April 2008 onwards.

A deferred tax charge in relation to actuarial and hedging gains and losses of £4.6m (2006: credit of £5.9m) has been recognised directly in reserves.

### 4. Earnings per share

The weighted average number of shares used in the calculation of basic earnings per share (EPS) is 309.4m (2006: 358.7m) and of diluted EPS is 310.6m (2006: 360.0m). See note 9 for details of the number of shares in issue.

|   | Unaudited        |             | Audited     |
|---|------------------|-------------|-------------|
|   | Six months ended |             | Year ended  |
|   | 30 Sep 2007      | 30 Sep 2006 | 31 Mar 2007 |
|   | p                | p           | p           |
| Basic earnings per share on profit for the period             | 39.7             | 21.7        | 42.3        |
| Basic earnings per share on profit from continuing operations | 40.9             | 23.4        | 48.1        |

for the period

|   |      |      |      |
|---|------|------|------|
| Basic adjusted earnings per share on profit for the period                            | 42.8 | 25.7 | 55.1 |
| Basic adjusted earnings per share (excluding deferred tax) on profit for the period   | 32.4 | 27.1 | 61.4 |
| Diluted earnings per share on profit for the period                                   | 39.5 | 21.6 | 42.1 |
| Diluted earnings per share on profit from continuing operations for the period        | 40.7 | 23.3 | 47.9 |
| Diluted adjusted earnings per share on profit for the period                          | 42.6 | 25.6 | 54.9 |
| Diluted adjusted earnings per share (excluding deferred tax) on profit for the period | 32.2 | 27.0 | 61.2 |

Basic EPS is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. The ordinary shares held in the ESOT are excluded from the weighted average number of shares for this purpose.

For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The group has only one category of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the company's ordinary shares during the year.

Adjusted EPS is calculated by adding back exceptional costs incurred including the impairment charge relating to the disposal of Aquarion.

Adjusted EPS excluding deferred tax is calculated as above and also adjusts for deferred tax.

#### 5. Capital expenditure

|  | Unaudited<br>6 months ended |                          |                            |                          | Audited<br>Year ended      |                          |
|--|-----------------------------|--------------------------|----------------------------|--------------------------|----------------------------|--------------------------|
|  | 30 Sep 2007                 |                          | 30 Sep 2006                |                          | 31 Mar 2007                |                          |
|  | Intangible<br>assets<br>£m  | Tangible<br>assets<br>£m | Intangible<br>assets<br>£m | Tangible<br>assets<br>£m | Intangible<br>assets<br>£m | Tangible<br>assets<br>£m |
| Opening net book amount at 1 April 2007        | 14.5                        | 3,975.3                  | 15.0                       | 3,798.6                  | 15.0                       | 3,798.6                  |
| Additions                                      | -                           | 183.2                    | -                          | 145.4                    | -                          | 347.7                    |
| Disposals                                      | (0.3)                       | (0.7)                    | (0.8)                      | (0.2)                    | (0.5)                      | (5.7)                    |
| Depreciation, amortisation and other movements | -                           | (84.2)                   | -                          | (82.4)                   | -                          | (165.3)                  |
|  | ----                        | ----                     | ----                       | ----                     | ----                       | ----                     |
| Closing net book amount at 30 September 2007   | 14.2                        | 4,073.6                  | 14.2                       | 3,861.4                  | 14.5                       | 3,975.3                  |
|  | ----                        | ----                     | ----                       | ----                     | ----                       | ----                     |

At 30 September 2007, the group was committed to contracts for property, plant and equipment of £328.8m.

#### 6. Cash and cash equivalents

|   | Unaudited<br>Six months ended |             | Audited<br>Year ended |
|---|-------------------------------|-------------|-----------------------|
|   | 30 Sep 2007                   | 30 Sep 2006 | 31 Mar 2007           |
|   | £m                            | £m          | £m                    |
| Cash at bank and in hand  | 10.5                          | 0.3         | 39.6                  |
| Short term deposits   | -                             | 27.9        | 71.8                  |
|   | ----                          | ----        | ----                  |
| Total cash and cash equivalents                                   | 10.5                          | 28.2        | 111.4                 |
| Cash and cash equivalents attributable to discontinued operations | -                             | (11.8)      | (9.4)                 |
|   | ----                          | ----        | ----                  |
| Cash and cash equivalents attributable to continuing operations   | 10.5                          | 16.4        | 102.0                 |
|   | ----                          | ----        | ----                  |

## 7. Analysis of movement in net debt

|  | Unaudited                       |             | Audited                   |
|--|---------------------------------|-------------|---------------------------|
|  | Six months ended<br>30 Sep 2007 | 30 Sep 2006 | Year ended<br>31 Mar 2007 |
|  | £m                              | £m          | £m                        |
| (Decrease)/increase in cash and cash equivalents in the period | (91.5)                          | (70.0)      | 14.1                      |
| Decrease in short term debt                                    | 169.8                           | 99.6        | 116.2                     |
| Increase in long term debt                                     | (590.3)                         | (96.6)      | (293.8)                   |
| Currency translation and other non cash differences            | -                               | 4.0         | 12.8                      |
|  | ----                            | ----        | ----                      |
| Movement in net debt in the period                             | (512.0)                         | (63.0)      | (150.7)                   |
| Net debt at the beginning of the period                        | (1,981.6)                       | (1,953.6)   | (1,953.6)                 |
|  | ----                            | ----        | ----                      |
| Net debt at the end of the period                              | (2,493.6)                       | (2,016.6)   | (2,104.3)                 |
| Less debt held within operations to be discontinued            | -                               | 118.5       | 122.7                     |
|  | ----                            | ----        | ----                      |
| Debt within continuing operations                              | (2,493.6)                       | (1,898.1)   | (1,981.6)                 |
|  | ----                            | ----        | ----                      |

During the period, the group issued index linked bonds of £250m and fixed rate bonds of £350m. The index linked bonds expire between 2050 and 2058. The fixed rate bonds expire between 2027 and 2037.

## 8. Reconciliation of group movements in equity

|  | Unaudited        |               |                            |                       |
|--|------------------|---------------|----------------------------|-----------------------|
|  | Six months ended |               |                            |                       |
|  | 30 Sep 2007      |               |                            |                       |
|  | Issued capital   | Share premium | Capital redemption reserve | Total capital reserve |
|  | £m               | £m            | £m                         | £m                    |
| Shareholders' funds at start of period | 55.8             | 16.7          | 147.9                      | 220.4                 |
| B shares redeemed                      | 0.1              | (3.6)         | 3.5                        | -                     |
|  | ----             | ----          | ----                       | ----                  |
| Shareholders' funds at end of period   | 55.9             | 13.1          | 151.4                      | 220.4                 |
|  | ----             | ----          | ----                       | ----                  |

|  | Unaudited                |                 |                     |                             |                   |                            |
|--|--------------------------|-----------------|---------------------|-----------------------------|-------------------|----------------------------|
|  | Six months ended         |                 |                     |                             |                   |                            |
|  | 30 Sep 2007              |                 |                     |                             |                   |                            |
|  | Investment in own shares | Hedging reserve | Translation reserve | Share-based payment reserve | Retained earnings | Total non-capital reserves |
|  | £m                       | £m              | £m                  | £m                          | £m                | £m                         |
| Shareholders' funds at start of period                       | (6.7)                    | 1.9             | 2.7                 | 4.5                         | 1,239.7           | 1,242.1                    |
| Transfer from the income statement                           | -                        | -               | -                   | -                           | 122.7             | 122.7                      |
| Dividends approved and paid                                  | -                        | -               | -                   | -                           | (82.0)            | (82.0)                     |
| B share scheme   | 3.8                      | -               | -                   | -                           | (742.1)           | (738.3)                    |
| Treasury shares disposed of through vesting of share schemes | 0.7                      | -               | -                   | (0.5)                       | -                 | 0.2                        |
| Share based payment charge                                   | -                        | -               | -                   | 0.7                         | -                 | 0.7                        |

|  |       |       |       |      |       |       |
|--|-------|-------|-------|------|-------|-------|
| Tax on treasury shares disposed of and share based payment charge          | -     | -     | -     | 1.1  | -     | 1.1   |
| Total included in the group statement of recognised income and expenditure | -     | (2.0) | (1.4) | -    | 13.3  | 9.9   |
|  | ----  | ----  | ----  | ---- | ----  | ----  |
| Shareholders' funds at end of period                                       | (2.2) | (0.1) | 1.3   | 5.8  | 551.6 | 556.4 |
|  | ----  | ----  | ----  | ---- | ----  | ----  |

|  | Unaudited<br>Six months ended<br>30 Sep 07<br>Total non-capital reserves |                            | Unaudited<br>Six months ended<br>30 Sep 06 |         | Audited<br>Year ended<br>31 Mar 07 |
|--|--|----------------------------|--|---------|------------------------------------|
|  | Total capital reserve  | Total non-capital reserves | Total                                      | Total   | Total                              |
|  | £m   | £m                         | £m   | £m      | £m                                 |
| Shareholders' funds at start of period                                     | 220.4  | 1,242.1                    | 1,462.5                                    | 1,457.0 | 1,457.0                            |
| Transfer from the income statement   | -  | 122.7                      | 122.7                                      | -       | 151.3                              |
| Dividends approved and paid  | -  | (82.0)                     | (82.0)                                     | (76.8)  | (109.7)                            |
| B share scheme   | -  | (738.3)                    | (738.3)                                    | -       | -                                  |
| Share buy-back   | -  | -                          | -  | (59.3)  | (59.3)                             |
| Treasury shares disposed of through vesting of share schemes               | -  | 0.2                        | 0.2  | -       | 2.3                                |
| Share based payment charge   | -  | 0.7                        | 0.7  | 1.1     | 1.9                                |
| Tax on treasury shares disposed of and share based payment charge          | -  | 1.1                        | 1.1  | -       | 0.1                                |
| Total included in the group statement of recognised income and expenditure | -  | 9.9                        | 9.9  | (77.7)  | 18.9                               |
|  | ----   | ----                       | ----                                       | ----    | ----                               |
| Shareholders' funds at end of period                                       | 220.4  | 556.4                      | 776.8                                      | 1,244.3 | 1,462.5                            |
|  | ----   | ----                       | ----                                       | ----    | ----                               |

## 9. Share capital

|   | Number of ordinary shares | 15 5/9p shares<br>£ | 20 2/9p shares<br>£ | B shares<br>£ |
|---|---------------------------|---------------------|---------------------|---------------|
| Capital                                 |                           |                     |                     |               |
| Opening balance as at 1 April 2007      | 358,525,396               | 55,770,617          | -                   | -             |
| Issue of shares                         | 5                         | -                   | -                   | -             |
| Issue of new 20 2/9p shares             | (82,736,631)              | (55,770,617)        | 55,770,617          | 3,585,254     |
| Cancellation of B shares                | -                         | -                   | -                   | (3,533,577)   |
|   | ----                      | ----                | ----                | ----          |
| Closing balance as at 30 September 2007 | 275,788,770               | -                   | 55,770,617          | 51,677        |
|   | ----                      | ----                | ----                | ----          |
| Opening balance as at 1 April 2006      | 366,370,396               | 56,990,950          | -                   | -             |
| Share buy back                          | (7,845,000)               | (1,220,333)         | -                   | -             |
|   | ----                      | ----                | ----                | ----          |
| Closing balance as at 30 September 2006 | 358,525,396               | 55,770,617          | -                   | -             |
|   | ----                      | ----                | ----                | ----          |

During the period, a capital return to shareholders was made by way of the B share scheme totalling £742.1m. Of that, £479.3m was initial dividend payments and £262.8m was share redemption. The B shares which received

the initial dividend were subsequently converted into deferred shares, redeemed at the close of business on 2 July 2007 for a total aggregate consideration of one penny and then cancelled. At 30 September 2007, £51,677 of the capital return via the scheme was outstanding and held in share capital.

In addition, there was a consolidation of the ordinary shares of the company, whereby for every 13 existing ordinary shares of 15 5/9p each held on 18 June 2007, shareholders received 10 new ordinary shares of 20 2/9p each. As a result, the number of ordinary shares in issue was reduced by 82,736,631.

#### 10. Discontinued operations

During the period, the group disposed of its holding in Aquarion, its regulated water business, and Aquarion Operating Services for total consideration of £314.2m.

Both operations have been treated as discontinued in the period.

The results of these operations which are included within the group's results for the period are summarised below:

|   | Unaudited        |             | Audited     |
|---|------------------|-------------|-------------|
|   | Six months ended |             | Year ended  |
|   | 30 Sep 2007      | 30 Sep 2006 | 31 Mar 2007 |
|   | £m               | £m          | £m          |
| Revenue   | 14.4             | 53.0        | 99.4        |
| Expenses  | (13.2)           | (30.0)      | (57.8)      |
|   | ----             | ----        | ----        |
| Operating profit  | 1.2              | 23.0        | 41.6        |
| Impairment charge   | (3.9)            | (20.9)      | (45.5)      |
| Investment income   | -                | 1.9         | 3.7         |
| Finance costs   | (1.1)            | (6.1)       | (14.0)      |
|   | ----             | ----        | ----        |
| Loss before tax for discontinued operations               | (3.8)            | (2.1)       | (14.2)      |
| Tax expense   | (0.1)            | (4.0)       | (6.2)       |
|   | ----             | ----        | ----        |
| Loss for the period from discontinued operations (note 2) | (3.9)            | (6.1)       | (20.4)      |
|   | ----             | ----        | ----        |

At the period end, liabilities of £8.0m in relation to these businesses were included in the liabilities of the group.

#### 11. Related parties

All transactions with related parties, including those with joint ventures and associates, were completed at arms length and on commercial terms.