

# THAMES WATER UTILITIES LIMITED

## INTERIM RESULTS FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006

### Profit and loss account

	Note	Half year to 30 September 2006 (unaudited)	Restated Half year to 30 September 2005 (unaudited)	Restated Year to 31 March 2006
		£m	£m	£m
Turnover		713.8	695.7	1,393.0
Operating costs	2	<u>(512.1)</u>	<u>(453.1)</u>	<u>(924.2)</u>
Operating profit		201.7	242.6	468.8
Profit on sale of fixed assets		0.2	0.4	9.3
Net interest		(72.0)	(71.4)	(143.8)
Other finance income		<u>3.4</u>	<u>3.3</u>	<u>11.1</u>
<b>Profit on ordinary activities before taxation</b>		133.3	174.9	345.4
Taxation on profit on ordinary activities	3	<u>(40.0)</u>	<u>(52.6)</u>	<u>(100.3)</u>
<b>Profit for the period</b>		93.3	122.3	245.1
Dividends	4	<u>(35.3)</u>	<u>(155.0)</u>	<u>(276.0)</u>
<b>Retained profit/(deficit) for the period</b>		<u>58.0</u>	<u>(32.7)</u>	<u>(30.9)</u>

All amounts above relate to continuing operations.

### Statement of total recognised gains and losses

	Half year to 30 September 2006 (unaudited)	Restated Half year to 30 September 2005 (unaudited)	Restated Year to 31 March 2006
	£m	£m	£m
Profit for the period	93.3	122.3	245.1
Actuarial gain/(loss) on pension scheme	19.1	(6.0)	7.7
Deferred tax relating to actuarial gain/loss	<u>(5.7)</u>	<u>1.8</u>	<u>(2.3)</u>
<b>Total recognised gains for the period</b>	<u>106.7</u>	<u>118.1</u>	<u>250.5</u>

# THAMES WATER UTILITIES LIMITED

## INTERIM RESULTS FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006

### Balance Sheet

	Note	30 September 2006 (unaudited)	Restated 30 September 2005 (unaudited)	Restated 31 March 2006
		£m	£m	£m
<b>Fixed assets</b>				
Tangible assets	5	5,716.1	5,354.3	5,545.2
Investments		0.1	0.1	0.1
		<b>5,716.2</b>	<b>5,354.4</b>	<b>5,545.3</b>
<b>Current assets</b>				
Stocks		6.3	5.9	6.5
Debtors		746.4	682.2	449.8
Cash at bank and in hand		903.2	-	12.0
		<b>1,655.9</b>	<b>688.1</b>	<b>468.3</b>
<b>Creditors: amounts falling due within one year</b>		<b>(1,097.9)</b>	<b>(975.8)</b>	<b>(1,065.8)</b>
<b>Net current assets/(liabilities)</b>		<b>558.0</b>	<b>(287.7)</b>	<b>(597.5)</b>
<b>Total assets less current liabilities</b>		<b>6,274.2</b>	<b>5,066.7</b>	<b>4,947.8</b>
<b>Creditors: amounts due after more than one year</b>		<b>(3,482.7)</b>	<b>(2,360.2)</b>	<b>(2,228.2)</b>
<b>Provisions for liabilities and charges</b>	6	<b>(901.3)</b>	<b>(881.0)</b>	<b>(894.4)</b>
<b>Deferred income</b>		<b>(165.1)</b>	<b>(157.4)</b>	<b>(157.6)</b>
<b>Pension liability</b>		<b>(17.9)</b>	<b>(43.7)</b>	<b>(31.8)</b>
<b>Net assets</b>		<b>1,707.2</b>	<b>1,624.4</b>	<b>1,635.8</b>
<b>Capital and reserves</b>				
Called up share capital		1,029.0	1,029.0	1,029.0
Share premium		100.0	100.0	100.0
Profit and loss account	7	578.2	495.4	506.8
<b>Equity shareholder's funds</b>	8	<b>1,707.2</b>	<b>1,624.4</b>	<b>1,635.8</b>

# THAMES WATER UTILITIES LIMITED

## INTERIM RESULTS FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006

### Cash flow statement

	Note	Half year to 30 September 2006 (unaudited) £m	Half year to 30 September 2005 (unaudited) £m	Year to 31 March 2006 £m
Net cash inflow from operating activities	9	437.2	449.8	771.6
Returns from investments and servicing of finance		(65.3)	(48.3)	(130.8)
Taxation		(34.4)	(19.7)	(53.6)
Net capital expenditure		(276.9)	(227.3)	(508.3)
Equity dividends paid		(35.3)	(155.0)	(276.0)
Cash inflow/(outflow) before financing		25.3	(0.5)	(197.1)
Financing	10	865.9	(4.0)	210.8
Increase/(decrease) in cash	10	891.2	(4.5)	13.7

# THAMES WATER UTILITIES LIMITED

## INTERIM RESULTS FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006

### Notes to the interim results

#### 1. Basis of preparation

The unaudited interim financial statements for the half year ended 30 September 2006 have been prepared in accordance with the historic cost convention.

Other than the presentation of profit on the sale of fixed assets in the profit and loss account in accordance with Financial Reporting Standard 3, these interim financial statements are consistent with the regulatory historic cost financial statements for the year ended 31 March 2006, which the Company prepares in accordance with Condition F of the Instrument of Appointment by the Secretary of State for the Environment as a water and sewerage undertaker under the Water Industry Act 1991. The effect of departures from applicable UK Accounting Standards, which are necessary to comply with regulatory reporting requirements laid down by the Water Services Regulation Authority (OFWAT), are set out in the regulatory financial statements for the year ended 31 March 2006.

The statutory accounts for the year ended 31 December 2005 have been delivered to the Registrar of Companies. The auditors' report on these accounts was unqualified and did not contain a statement under s.237(2) or (3) of the Companies Act 1985.

The regulatory accounts for the year ended 31 March 2006 have been delivered to OFWAT. The auditors' report on these accounts confirmed that they contained the information required to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991.

The financial information contained in this announcement does not constitute statutory accounts within the meaning of s.240 of the Companies Act 1985.

These interim statements were approved by the Board of Directors on 27 November 2006.

#### Changes to accounting policies

The same accounting policies used for the years ended 31 December 2005 and 31 March 2006 have been applied with the following exceptions:

- **FRS 17 Retirement Benefits**

From 1 April 2005, the Company has adopted the requirements of FRS 17 'Retirement Benefits'.

The majority of the Company's employees belong to RWE Thames Water Group pension schemes, which are funded by both employer's, and employees' contributions and which are of the defined benefit type.

The Company's pension arrangements are of the group multi-employer scheme nature, such that the Company's pension scheme assets and liabilities are included with those of other companies in the RWE Thames Water Group. The Company contributes the vast majority of the contributions into the Scheme and any consequence of there being a surplus or a deficit in the schemes is felt by the Company. Accordingly, the Directors have decided it is appropriate to recognise the total surplus and deficit of the two Group pension schemes within these financial statements.

The adoption of this new standard represents a change in accounting policy and the comparative figures have been restated accordingly.

# THAMES WATER UTILITIES LIMITED

## INTERIM RESULTS FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006

### Notes to the interim results

#### 1. Basis of preparation (continued)

- **FRS 17 Retirement Benefits (continued)**

The effect of the change in accounting policy to adopt FRS 17 was to decrease the brought forward profit and loss reserves by £5.5m (September 2005 and March 2006: £37.3m decrease), to increase the profit for the period by £0.5m (September 2005: £1.6m, March 2006: £10.1m increase) and to recognise a £13.4m net actuarial gain (September 2005: £4.2m loss, March 2006: £5.4m gain).

#### 2. Operating costs

	Half year to 30 September 2006 (unaudited)	Restated Half year to 30 September 2005 (unaudited)	Restated Year to 31 March 2006
	£m	£m	£m
Operating costs before depreciation	(337.7)	(299.9)	(621.1)
Infrastructure renewals charge	(57.9)	(49.3)	(93.8)
Depreciation – Non-infrastructure	(116.5)	(103.9)	(209.3)
	<b>(512.1)</b>	<b>(453.1)</b>	<b>(924.2)</b>

#### 3. Taxation

The tax charge is based upon UK corporation tax of 30%.

The interim charge for the half year to 30 September 2006 is based upon the effective tax rate for the full year to 31 December 2006 applied to the profits earned in the six months to September 2006.

#### 4. Dividends

	Half year to 30 September 2006 (unaudited)	Half year to 30 September 2005 (unaudited)	Year to 31 March 2006
	£m	£m	£m
Final paid (September 2005: 9.27p; March 2006: 9.27p) per ordinary share	-	95.4	95.4
First interim paid (September 2005: 5.79p; March 2006: 5.79p) per ordinary share	-	59.6	59.6
Second interim paid (March 2006: 2.90p) per ordinary share	-	-	29.8
Third interim paid: (March 2006: 8.86p) per ordinary share	-	-	91.2
Interim paid: June 2006 3.43p per ordinary share	35.3	-	-
	<b>35.3</b>	155.0	276.0

# THAMES WATER UTILITIES LIMITED

## INTERIM RESULTS FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006

### Notes to the interim results

#### 5. Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Infrastructure assets £m	Total £m
<b>UK GAAP (FRS 15) historic cost values</b>				
<b>Cost</b>				
At 1 April 2006	2,109.4	3,066.0	3,114.8	8,290.2
Additions	50.0	141.5	169.5	361.0
Disposals	-	-	-	-
<b>At 30 September 2006</b>	<b>2,159.4</b>	<b>3,207.5</b>	<b>3,284.3</b>	<b>8,651.2</b>
<b>Capital Contributions</b>				
At 1 April 2006	-	-	469.6	469.6
Additions	-	-	21.6	21.6
<b>At 30 September 2006</b>	<b>-</b>	<b>-</b>	<b>491.2</b>	<b>491.2</b>
<b>Depreciation</b>				
At 1 April 2006	516.0	1,304.0	500.2	2,320.2
Provided during the period	18.2	98.3	52.6	169.1
Disposals	-	-	-	-
<b>At 30 September 2006</b>	<b>534.2</b>	<b>1,402.3</b>	<b>552.8</b>	<b>2,489.3</b>
<b>UK GAAP Net Book Value</b>				
<b>At 30 September 2006</b>	<b>1,625.2</b>	<b>1,805.2</b>	<b>2,240.3</b>	<b>5,670.7</b>
At 31 March 2006	1,593.4	1,762.0	2,145.0	5,500.4
<b>Infrastructure renewal charge adj to RAG 3 charge</b>				
At 1 April 2006 and 30 September 2006	-	-	5.3	5.3
Infrastructure renewal charge to align RAG3 charge to FRS 15	-	-	(5.3)	(5.3)
<b>Infrastructure renewal charge adjustment to RAG 3 charge</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>RAG3 net infrastructure renewal reclassification</b>				
At 1 April 2006	-	-	39.5	39.5
Infrastructure renewal expenditure in the period	-	-	(52.0)	(52.0)
Infrastructure renewal depreciation charge	-	-	52.6	52.6
Infrastructure renewal charge to align RAG3 charge to FRS 15	-	-	5.3	5.3
<b>At 30 September 2006</b>	<b>-</b>	<b>-</b>	<b>45.4</b>	<b>45.4</b>
<b>Regulatory historic cost net book value</b>				
<b>At 30 September 2006</b>	<b>1,625.2</b>	<b>1,805.2</b>	<b>2,285.7</b>	<b>5,716.1</b>
At 31 March 2006	1,593.4	1,762.0	2,189.8	5,545.2

# THAMES WATER UTILITIES LIMITED

## INTERIM RESULTS FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006

### Notes to the interim results

#### 5. Tangible fixed assets (continued)

In June 2005 the London Borough of Newham, following a direction from the Mayor of London, formally refused planning permission for the Company's proposed Thames Gateway Water Treatment Plant, employing desalination technology at Beckton in East London. The site is operational land owned by the Company. An appeal was lodged and a public inquiry was heard in May 2006. A decision on the appeal from the Secretaries of State is expected at any time from Christmas 2006 to late 2007. A duplicate application for planning permission has also been submitted. The works carried out to date are a combination of site preparation, for which planning permission is not considered a requirement, a pilot plant constructed on the site to prove the technology, for which planning permission has been granted and some preliminary construction works in readiness for the permanent plant, which has been refused planning permission. The works on site have been suspended pending the outcome of the appeal with the exception of work required to make the site safe and to fulfil contractual obligations. To 30 September 2006 the Company has spent and capitalised £66.7m, of which £15m is in respect of site preparation and the pilot plant. The Company is strongly of the opinion that this plant is an essential element in securing future adequate supplies of water to the population of London, in view of the projected imbalance between supply and demand in a drought year and that the desalination plant is the most appropriate solution for the Company to take at this time. The current position reflects the best estimate of the outcome of the appeal. If it emerges at any stage that the current judgement needs to be revised, then a reappraisal of the amounts capitalised may become necessary.

#### 6. Provisions for liabilities and charges

	Half year to 30 September 2006 (unaudited)	Restated Half year to 30 September 2005 (unaudited)	Year to 31 March 2006
	£m	£m	£m
Provision for deferred tax	<b>901.3</b>	881.0	894.4

# THAMES WATER UTILITIES LIMITED

## INTERIM RESULTS FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006

### Notes to the interim results

#### 7. Profit and loss account reserve

	Half year to 30 September 2006 (unaudited)	Restated Half year to 30 September 2005 (unaudited)	Restated Year to 31 March 2006
	£m	£m	£m
At 1 April as previously reported	512.3	474.2	474.2
Restatement – FRS 17	(5.5)	(37.3)	(37.3)
Restatement – FRS 21	-	95.4	95.4
At 1 April – Restated	506.8	532.3	532.3
Profit for the year	93.3	122.3	245.1
Dividends	(35.3)	(155.0)	(276.0)
Retained profit/(deficit)	58.0	(32.7)	(30.9)
Actuarial gain/(loss) on pension scheme	19.1	(6.0)	7.7
Deferred tax relating to actuarial gain/loss on pension scheme	(5.7)	1.8	(2.3)
As at 30 September including total pension liability	578.2	495.4	506.8
Total pension liability	17.9	43.7	31.8
As at 30 September excluding pension liability	596.1	539.1	538.6

# THAMES WATER UTILITIES LIMITED

## INTERIM RESULTS FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006

### Notes to the interim results

#### 8. Reconciliation of movements in shareholder's funds

	Half year to 30 September 2006 (unaudited)	Restated Half year to 30 September 2005 (unaudited)	Restated Year to 31 March 2006
	£m	£m	£m
Profit for the period	93.3	122.3	245.1
Dividends	(35.3)	(155.0)	(276.0)
Net movement in shareholder's funds	58.0	(32.7)	(30.9)
Shareholder's funds at the beginning of the period as previously reported	1,641.3	1,603.2	1,603.2
Restatement – FRS 17	(5.5)	(37.3)	(37.3)
Restatement – FRS 21	-	95.4	95.4
Shareholder's funds at the beginning of the period as restated	1,635.8	1,661.3	1,661.3
Actuarial gain/(loss) on pension scheme	19.1	(6.0)	7.7
Deferred tax relating to actuarial gain/loss on pension scheme	(5.7)	1.8	(2.3)
Shareholder's funds at the end of the period including pension liability	1,707.2	1,624.4	1,635.8

#### 9. Reconciliation of operating profit to net cash inflow from operating activities

	Half year to 30 September 2006 (unaudited)	Restated Half year to 30 September 2005 (unaudited)	Restated Year to 31 March 2006
	£m	£m	£m
Operating profit	201.7	242.6	468.8
Infrastructure renewals charge	57.9	49.3	93.8
Depreciation – Non-infrastructure	116.5	103.9	209.3
Difference between pension charge and cash contributions	2.8	5.4	9.9
Decrease/(increase) in stocks	0.2	(0.1)	(0.7)
(Increase) in debtors and prepaid expenses	(304.7)	(309.5)	(73.0)
Increase in creditors and accrued expenses	368.3	363.2	73.6
Deferred income release	(5.5)	(5.0)	(10.1)
Net cash inflow from operating activities	437.2	449.8	771.6

# THAMES WATER UTILITIES LIMITED

## INTERIM RESULTS FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2006

### Notes to the interim results

#### 10. Reconciliation of net debt

	Note	Half year to 30 September 2006 (unaudited)	Half year to 30 September 2005 (unaudited)	Year to 31 March 2006
		£m	£m	£m
Opening net debt		(2,613.0)	(2,410.7)	(2,410.7)
Increase/(decrease) in cash		891.2	(4.5)	13.7
Movement on borrowings - Cash		(865.9)	4.0	(210.8)
- Non-cash		(2.5)	(2.8)	(5.2)
Total	11	<u>(2,590.2)</u>	<u>(2,414.0)</u>	<u>(2,613.0)</u>

Non-cash changes comprise the carrying value uplift by RPI, of an RPI index-linked bond. This adjustment is in accordance with FRS 4 'Capital instruments', which requires the carrying value of such index-linked loans to be recalculated at each balance sheet date.

#### 11. Analysis of net debt

	Note	Half year to 30 September 2006 (unaudited)	Half year to 30 September 2005 (unaudited)	Year to 31 March 2006
		£m	£m	£m
Cash at bank and in hand		903.2	-	12.0
Bank overdraft		-	(6.2)	-
		<u>903.2</u>	<u>(6.2)</u>	<u>12.0</u>
Debt due within 1 year		(68.2)	(103.2)	(387.0)
Debt due after 1 year		(3,207.7)	(2,077.5)	(2,012.6)
Finance leases		(217.5)	(227.1)	(225.4)
Total	10	<u>(2,590.2)</u>	<u>(2,414.0)</u>	<u>(2,613.0)</u>